EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,955 Monday September 25 1989 D 8523A

N IRELAND
Shopping and symbolism
Page 19

World News

Airport opens in Beirut as ceasefire takes hold

Lebanon's latest war appeared to be over and traces of normal life began to return when the Syrian siege and shelling of West Beirut ended after six months, allowing the airport to reopen. Page 20

E German exodus
More than 800 East Germans crossed into the West from Hungary at the weekend, taking to 19,906 the number who have crossed in the past two weeks. Bonn estimated that the flow of refugees could reach 2m by the year 2000. Page 3

Cambodian plan
The US and the Soviet Union said they would stop military aid to their Cambodian allies under a peace agreement for the country. Page 2

Pretoria protest
Police used violence against anti-apartheid demonstrators in Pretoria, raising doubts over the South African Government's commitment to allow peaceful protest. Page 4

Hassan visits Spain
King Hassan of Morocco begins his first state visit to Spain, amid expectations the trip will lead to increased bilateral trade. Page 3

Danish divisions
Danish politicians and officials face bitter recriminations after settlement of a dispute between the Danish Government and European Commission over plans for a road-rail bridge. Page 4

Editor criticised
Members of the Inter-regional Group of left-wing Soviet deputies demanded the resignation of Pravda editor Viktor Afanasyev, after the Communist Party newspaper printed an attack on Moscow deputy Boris Yeltsin, one of the group's leaders. Page 3

Liberals ahead
Robert Bourassa's Quebec Liberal Party is leading opinion polls on the eve of elections in the the Canadian province. Page 3

Taiwan offer
Taiwan plans to admit as permanent residents more than 60 dissident student leaders from China, who are stranded in Hong Kong and elsewhere and who risk punishment if they return to their homes.

Ugandan fraud
Uganda has uncovered a racket in which foreigners have been buying fake Ugandan passports and using them to buy air tickets in Ugandan currency bought on the black market.

HK demonstration
More than 1,000 trade union activists shouting "send them home" marched through crowded Hong Kong streets calling for mandatory repatriation of Vietnamese boat people.

Siberian explosion
A fire in an ammunition dump sent shells exploding into residential areas of a Siberian town, Moscow Radio reported. It said about 20,000 people were evacuated from the town of Yurga and nearby villages.

Colombian violence
Two bombs exploded in Bogota, the Colombian capital injuring two people, in a continuing wave of violence blamed on drug traffickers.

Hurricane relief
US authorities mobilised a relief effort for Charleston, South Carolina, to help it recover after Hurricane Hugo, which was responsible for nearly 50 deaths in the US before it died out.

Berlin remembered
Broadway theatres dimmed their lights in memory of the acclaimed New York songwriter Irving Berlin who died aged 101.

Ryder Cup
Europe retained the Ryder Cup golf trophy after drawing with the US team in a set of close fought singles matches.

Business Summary

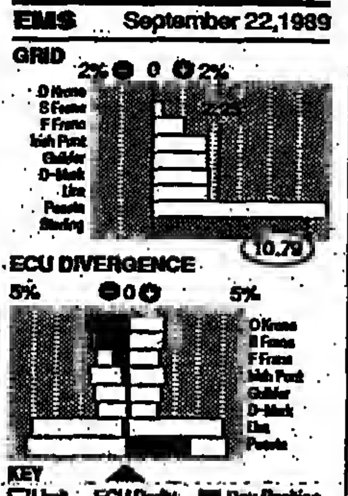
ICI forced to close Taiwan plant by acid waste claim

IMPERIAL Chemical Industries has been forced by environmental protests to close a chemical plant in southern Taiwan only weeks after announcing it had chosen the island for a record $300m new project.

The plant, Kaohsiung Monomer, is 60 per cent owned by ICI and produces an acrylic intermediate known as MMA. It shut after fishermen claimed a sub-contractor was dumping waste acid near the coast instead of taking it 20 miles out to sea. Page 4

EUROPEAN Monetary System: The Spanish peseta was the most improved currency within the EMS last week after the introduction of fresh Ecu weightings which took account of the peseta and the Portuguese escudo becoming part of the Ecu basket.

The Danish krone was again trading close to its divergence limit having been depressed earlier in the week on fears of higher West German interest rates.



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira and Spanish peseta) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies.

OPEC oil ministers met to try to bridge differences over whether to raise Opec's production ceiling from 19.5m barrels a day amid bitterness over failure to reach the price target of $18 a barrel. Page 20

HANSON vice chairman Martin Taylor dismissed a report that the UK-based conglomerate was poised to enter the battle for BAT Industries, diversified tobacco group. Page 8

ASSICURAZIONI Generali, Italy's biggest insurance group, is expected to pay more than $200m to acquire a 13 per cent equity stake in Nuovo Banco Ambrosiano (NBA). Page 26

BANK of Israel governor Professor Michael Bruno said this year's Israeli budget deficit was set for alarming levels and might reach 8 per cent of GNP this year, up sharply from 1988. Page 4

WANG Laboratories, troubled US minicomputer maker, arranged to borrow $175m from Manufacturers Hanover, the New York bank, to help rebuild its tattered business. Page 26

TOKAI BANK, Japan's sixth largest bank which is expanding European operations, is seeking a listing on the London Stock Exchange next month. Page 26

JAPANESE industry's capital spending is growing at its highest sustained pace for 15 years as companies invest record amounts on extra capacity and research and development, according to private surveys. Page 4

RHONE-POULENC, French state-owned chemicals company, is expected to launch soon an innovative issue of participating securities, a hybrid product which combines elements of bond and equity. Page 26

SUN Hung Kai Properties, controlled by the Kwok family, one of Hong Kong's largest property developers, reported a 10 per cent increase in profits to HK$2.02bn ($259m) for the year ended June 30. Page 26

UNITED Industrial Corporation, diversified Singapore group, has bought a 13 per cent stake in Singapore Land, one of Singapore's largest property groups. Page 26

G7 pledges move to avert 'damaging' rise in dollar

By Peter Norman, Economics Correspondent, in Washington

FINANCE ministers and central bank governors of the world's seven leading industrial countries announced at the weekend that they would co-operate to prevent a further rise in the dollar, arguing that this could damage the world economy.

After a seven-hour meeting in Washington on Saturday, the G7 representatives declared that they considered the rise in recent months of the dollar to be "inconsistent with longer run economic fundamentals."

In a statement, the ministers and central bank governors from the US, Japan, West Germany, France, Britain, Italy and Canada agreed that a "rise of the dollar above current levels, or an excessive decline, could affect prospects for the world economy."

As in the past, they pledged to co-operate closely in exchange markets.

The dollar was only one of several topics covered in what Mr Nigel Lawson, the UK Chancellor of the Exchequer, called a "very good meeting."

The warning about the dangers inherent in the dollar's rise was stronger than that issued after the last G7 meeting of ministers and central bankers, also held in Washington, in April. At that meeting the ministers noted only that a rise that undermined current account adjustment efforts "would be counterproductive."

The tougher language this time reflected the dollar's gains against the D-Mark and yen over the past six months and increased concern that this could have an adverse impact on the hoped-for slowdown of the world economy to sustainable growth with low inflation.

In recent months the US in particular has been increasingly worried at a slowdown in the gradual correction of the imbalance between the large US trade and current account deficits and the Japanese and West German surpluses. The G7 statement reflected this concern.

The pace of decline in the US trade deficit about halved in the first six months of this year from the $30bn annual rate of 1988, according to the US Treasury.

The International Monetary Fund in its latest World Economic Outlook, published yesterday, projects an increase in the US current account deficit to $138bn next year from around $125bn this year.

In their statement, the seven reaffirmed their support for economic policy co-ordination. They said vigilance was still required against inflation. With an eye on forthcoming negotiations over the US budget in Congress, they "encouraged" the US to press ahead with efforts to reduce the budget deficit to achieve the deficit targets set under the Gramm-Rudman-Hollings deficit reduction law.

They called on Canada and Italy also to cut fiscal deficits and the UK to reduce inflation.

The statement said that Japan and West Germany would pursue policies designed to keep domestic demand above inflation and so reduce their large external surpluses.

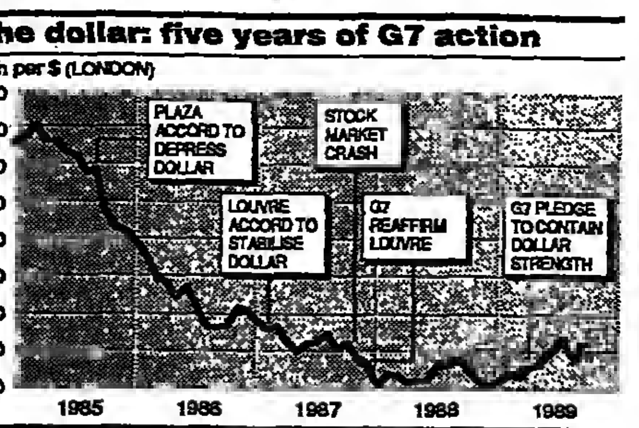
All countries were urged to promote economic efficiency, open their economies to foreign goods and services, curb subsidies and excessive regulation and boost savings where these are inadequate to sustain investment.

As usual after the G7 meetings, there was no clarification as to what the statement would mean for central bank tactics on exchange markets.

However, officials said that the US and Japan were more concerned to stem the dollar's rise than the West German Bundesbank.

Despite signing yesterday's statement, Mr Karl-Otto Pöhl, the Bundesbank president, remains sceptical about the value of foreign exchange market intervention and sees West Germany's main surplus problem as being with its European neighbours rather than with the US.

The dollar: five years of G7 action



Poland urged to agree IMF package

By Stephen Fidler, Euromarkets Correspondent, in Washington

FINANCE ministers of the Group of Seven industrialised countries hailed the process of reform in Eastern Europe as an historic event but emphasised that Western financial aid for Poland would be substantially tied to an International Monetary Fund economic reform programme.

In an unprecedented step, the post-meeting communiqué from the ministers and central bank governors referred to developments in the Eastern bloc. But the cautious tone of the reference to financial help for Poland suggests Western countries do not wish to establish new precedents in putting together an aid package.

The G-7 communiqué expressed strong support for plans to create more open and market-based economies.

Ministers "urged the Polish Government to reach an early agreement with the IMF on a strong and sustainable programme and they stand ready to support such a programme through bilateral and multilateral actions, including a Paris Club rescheduling."

Interpretations differed among officials as to whether this meant that an agreed IMF programme was a necessary condition before reschedulings could be agreed by the Paris Club of creditor governments.

The communiqué reflects a cautious tone among ministers for two main reasons. They are unwilling to pour large sums into Poland without some guarantee that economic reform will be undertaken in the knowledge that large foreign loans made in the past have been wasted.

The finance ministers are also aware that if precedents are set for Poland, they will be under pressure to do the same for other debtor governments, such as those in Latin America.

Poland's total foreign debt stands at around $41bn, about a quarter of which is owed to Western banks.

The hope is that an IMF standby agreement can be reached soon with the IMF, and the Polish finance minister, Mr Janusz Sawicki, is holding a series of meetings with the G-7 finance ministers in Washington.

Traditionally, the IMF will attempt to put in place initially a short-term standby programme, which will release funds based on agreement to economic reforms in Poland. An IMF mission is due to leave early next month to assess what reforms are needed.

The subject of Eastern Europe and the economic and political reforms in Hungary and Poland were one of the main topics of the discussions at Saturday's G-7 meeting.

The topic was not originally on the agenda but was introduced at the suggestion of Mr Nigel Lawson, the British Chancellor of the Exchequer. He described the developments as "of historic and momentous importance".

ON OTHER PAGES
Third World demands; Nigel Lawson interview; outlook good as growth slows to a sustainable pace .. Page 6
IMF economic notebook .... Page 19

Under Pressure: Guido Carli

Carli urges supervisory ties after BNL affair

By Alan Friedman and John Wyles in Roma

THE SCANDAL over $3bn of unauthorised Iraqi export credits dispensed by the US branch of Banca Nazionale del Lavoro in Atlanta demonstrates the urgent need for greater co-ordination among the world's monetary authorities, according to Mr Guido Carli, Italy's besieged Treasury Minister.

"I believe this crisis is part of a process in which we can see the risks of the internationalisation of the financial system, and especially the risks that exist outside of a strictly domestic market," Mr Carli said in an interview with the Financial Times.

But Mr Carli, a 75-year-old veteran whose resumé includes 15 years as Governor of the Bank of Italy, membership of the main boards of Fiat and IFI, the Agnelli family holding company, and a stint as president of Italy's industrial association, warned that the BNL crisis "should not cause us to turn in on ourselves."

Last week Mr Carli was savaged in parliament by opposition Communist Party legislators who accused him of reticence, of covering up and of simply refusing to acknowledge that what began as a banking scandal is now seen as a larger politico-military intrigue.

Assuming a polite but obstinate stance, Mr Carli declined to talk about the growing danger of the BNL-Iraqi loans being lumped into an overall bilateral debt rescheduling between Baghdad and Rome.

He also refused to acknowledge that he had seen the Ital-

Continued on Page 20

Bush ready to propose initiative on chemical weapons

By Lionel Barber in Jackson Hole, Wyoming and Peter Riddell in Washington

PRESIDENT George Bush will today unveil a US initiative on chemical weapons aimed at accelerating a growing momentum towards further agreements on arms control with the Soviet Union.

The Bush proposal - to be announced in a speech to the UN General Assembly - follows several significant Soviet concessions aimed at speeding agreement on a strategic arms reduction treaty (START) and an agreement on a super power summit in late spring or early summer next year.

During two days of talks in Wyoming, Mr Eduard Schevardnaze, the Soviet Foreign Minister, announced that Moscow was dropping its linkage between completing and implementing a START treaty and achieving agreement on space weapons and the US strategic defence initiative.

"It now appears a START treaty is quite a realistic prospect," he said.

The discussions were marked by rare candour and an absence of recrimination which US officials said indicated a change of tone in the relationship between Moscow and Washington.

Mr James Baker, US Secretary of State, described the Soviet move as a "positive step" but he repeated that Mr Bush remains committed to SDI, which aims to develop a defence shield against a nuclear ballistic attack.

A senior US official noted that the Soviet offer was conditional on both super powers sticking to the 1972 anti-ballistic missile treaty, whose interpretation remains disputed.

Senior members of Mr Bush's foreign affairs team yesterday highlighted the agreements reached in Wyoming to counter widespread criticisms that the administration has been slow to respond to changes in the Soviet bloc.

Mr Baker said that his meeting with Mr Shevardnadze had produced "some really fundamental progress, not just in strategic arms reduction, not just because the Soviets have delinked START from defence in space, but across the full range of the arms control agenda - such as

Continued on Page 20

Thorn EMI approached under proposed Ferranti rescue plan

Hugo Dixon and David White in London

THORN EMI, the UK electronics and retailing group, has been approached about the possibility of injecting its £300m ($471m) defence businesses into Ferranti International Signal as part of a rescue package for the defence electronics company.

The idea, being promoted by Hill Samuel, the merchant bank, and Murray Johnstone, the Scottish fund manager, may also involve a merger with Racal Electronics' defence businesses. The aim would be to create a new force in defence electronics to compete with GEC-Marconi.

The Hill Samuel/Murray Johnstone plan is just one of number of rescue options not the one most favoured by the group's executives.

Sir Derek Alun-Jones, Ferranti's chairman, spent the weekend abroad talking to potential industrial partners. He is understood to believe that Ferranti's future can best be secured if it is either wholly or partially owned by a large defence group.

Although Ferranti has not set its sights firmly on any particular rescuer, it sees attractions in linking up with Siemens, the West German electronics group. It believes there could be advantages in combining Ferranti's radar and defence communications businesses with those of Plessey, which Siemens has just acquired through its joint bid with GEC, the UK-based electronics company.

Ferranti believes detailed talks with potential partners will have to wait until after next Monday's publication of the preliminary investigation by Coopers & Lybrand, the accountants, into a £200m-plus fraud the company believes it has suffered. After tax relief, the damage to the balance sheet is expected to be about £150m.

Ferranti does not expect its programme of asset sales, which it hopes will generate £100m to help plug the hole in its balance sheet, to bear fruit before the end of the year. It has appointed Morgan Stanley, the US merchant bank, to handle the sale of Marquardt, a California-based bombs, rockets and chemical weapons subsidiary.

The Hill Samuel/Murray Johnstone plan would involve cleaning up Ferranti's defence businesses by raising new equity and selling the group's troubled US subsidiaries. Thorn and possibly Racal would be invited to put their defence businesses into the group in return for equity. Both Thorn and Racal have said they would like to sell their defence companies or put them into joint ventures. But there have been few takers.

Baring Brothers, Ferranti's merchant bank, is meeting Hill Samuel today to discuss the plan, while Thorn and Murray Johnstone meet on Wednesday. Racal says it has not yet been approached.

Racal joins frigate consortium, Page 9; Lancaster waits for Guerin, Page 22

CONTENTS

THE MONDAY INTERVIEW

Judge Harold Green (left), who presided over the break-up of America's Bell telephone system, faces attack from his critics in Congress eagar to strip him of his power over telecommunications policy. Page 38

OVERSEAS NEWS

Superpowers strive for climate of trust

Lionel Barber reports on the heady atmosphere of talks in the Wyoming mountains

MAYBE it was the altitude. At times, there was an air bordering on exhilaration as US and Soviet officials celebrated the results of their weekend talks amid the *majestic Grand Teton* mountains in Wyoming.

Two days of discussions yielded agreements on chemical weapons and underground nuclear testing, as well as a potentially significant shift in the Soviet position in the strategic arms reduction talks (Start), and a date for a first summit between President George Bush and President Mikhail Gorbachev in late spring or early summer next year.

More generally, the superpower discussions were marked by a rare candour and absence of recrimination. US officials confessed to being taken aback by the Soviets' willingness to talk about the nationalist unrest in the Baltic and Caucasus, and their plans for giving more autonomy to the Republics, as well their search for ideas on how to overhaul their country's sclerotic economy. "The fact that you had that kind of discussion is significant and important, " said a senior US official, "and it reveals something about a degree of trust that has already emerged in the relationship."

Throughout, it was the Soviets who seemed to he in a hurry. It began last week with a nine-page letter from Mr Gorbachev to Mr Bush; it ended with Mr Eduard Shevardnadze, Foreign Minister, presenting a series of new arms control initiatives, notably on the Start talks in Geneva aimed at negotiating a 50 per cent reduction in the superpowers' offensive nuclear arsenals.

The eye-catcher was the Soviet proposal to decouple a Start treaty from an agreement on the US Strategic Defence Initiative (SDI). In future, Mr Shevardnadze said, the Soviets would be willing to sign, ratify and implement a Start agreement *without* an agreement to place curbs on SDI or other space-based weapons. The offer was, however, hedged in one important respect: the Soviets reserved the right to back out of a Start accord if the US violates tha 1972 Anti-Ballistic Missile Treaty covering defences against offensive nuclear weapons.

Thus Moscow is dangling an historic Start treaty in front of Washington's (and Europe's) eyes – on condition that the Americans limit the testing and development of their SDI programme. If only to he consistent, the Soviets have also agreed to dismantle, unconditionally, their radar station at Krasnoyarsk, an admission that the US was correct in declaring the station a violation of the ABM treaty.

Mr James Baker, US Secretary of State, whose idea it was to give the Soviets a taste of the Wild West, described their move to drop Start-SDI linkage as a positive step. His officials remained cautious. While the Soviet proposal removes an obstacle on the road to a Start treaty, it does not dispose of the problem, one senior official said.

The question is whether the US is prepared to strike a deal on what type of SDI testing is permissihle. The US military high command rejected the idea two years ago, and the idea of putting curbs on SDI remains anathema to conservatives for whom strategic defence is a non-negotiable issue. Mr Bush, who has come under increasing fire from Democrats for being too cautious on East-West issues, faces a tricky political choice.

It seems likely that he will resist pressure to strike a deal on SDI, preferring to expand on President Ronald Reagan's earlier offer to share the technology. Thus, Mr Baker this weekend invited a group of Soviet experts to visit Los Alamos National Laboratory, home of the Beam Experiment Aboard Rocket, and tha TRW Corporation's test facility in San Juan Capistrano, where the Alpha laser project is under way.

This would he entirely in keeping with the spirit of Jackson Hole, an effort by both sides to encourage more transparency and predictability in their relationship.

The emphasis throughont was on verification: ranging from the exchange of data on chemical weapons facilities, to more discussions on the "Open Skies" proposal to have unarmed surveillance flights over Nato and Warsaw Pact territory, and an umhrella accord on "trial verification" for a Start treaty.

The Soviets, who have seen the Senate refuse to ratify a Salt II strategic arms treaty, know they must be credible on verification. (An interesting question is how far the Allies feel comfortable with this enthusiasm for openness; the Soviets let slip this weekend that they intend to inspect the radar facilities in Fylingdales in England to check if they violate the ABM treaty.)

The upshot of the talks, as Mr Baker said, is that both superpowers are moving into a fresh phase of co-operation. Differences will remain: little progress was made on regional disputes such as Afghanistan and Nicaragua.

But the general mood was positive, as both sides laboured hard to create a new climate of trust.

Soviet Foreign Minister Eduard Shevardnadze, in a gesture of peace and friendship, holds up a bottle of vodka during a barbeque at the Jackson Lake Lodge

Thatcher hopeful on troop cuts agreement

By Philip Stephens, Political Editor

BRITAIN believes that Nato and the Warsaw Pact should be able to reach an agreement on deep cuts in conventional forces in Europe before the end of next year following the latest Soviet arms control proposals.

Mrs Margaret Thatcher predicted after talks at the weekend with Mr Mikhail Gorbachev that the US and the Soviet Union were poised to make significant progress towards a deal on halving strategic nuclear weapons and on eliminating chemical weapons.

Speaking after a four-hour meeting with the Soviet President in Moscow, Mrs Thatcher said that they were both "at one" on the need for a speedy agreement to reduce conventional forces. Tha problems which remained after the latest Soviet suggestions could be resolved so that the prospects for a deal some time next year were "good".

She singled out Moscow's willingness - signalled in a letter last week from Mr Gorbachev to President George Bush - to widen the types of aircraft included in any pact as a significant hreakthrough.

Mrs Thatcher, who used her Moscow visit to heap effusive praise on Mr Gorbachev's policies of perestroika and glasnost, told a press conference that tha chances of lasting peace between East and West were now "very much greater".

She said that she was convinced that perestroika would sncceed despite the intense economic problems still faced by the Soviet Union and Mr Gorbachev's difficulties with resurgent nationalism.

Soviet officials, meanwhile, confirmed that Mrs Thatcher will meet Mr Gorbachev again when she visits Kiev next year. Her trip, coinciding with a Anglo-Soviet trade fair, is also expected to provide her with the opportunity to take up an invitation to address the Soviet parliament.

Despite her optimism on the arms control talks, Mrs Thatcher made it clear that she will resist strongly any move towards the "denuclearisation" of Europe.

Iron Lady melts in Moscow's Indian summer

IN Moscow's Indian summer, Mrs Margaret Thatcher melted. As the RAF stewards cracked open champagne to celehrate her return to London on the last leg of a gruelling trip which had taken in Tokyo and hrief stopover in Siberia as well as Moscow, there was not even a glimpse of the famous Iron Lady, **Philip Stephens** writes.

Instead the journalists crammed into her cabin on Britain's rather poor imitation of Air Force One listened to a Prime Minister captivated both by Mr Mikhail Gorbachev and by the Soviet Union he is trying to build.

Five days of skating across the world's tima zones had done nothing to dampen her enthusiasm for a man she has taken to calling tha most visionary leader that the Soviet Union has had.

A few hours earlier she had been enjoying a "cheerful, agreeable, and delicious" lunch with Mr Gorbachev in the glittering Tsarist splendour of a Foreign Ministry guesthouse.

The fact that the sumptuous two-storey mansion had been, as one Soviet official put it, "confiscated from a capitalist after the Revolution", would not so long ago have attracted a sharp Thatcherite comment about the sanctity of property rights. Now it was the occasion that mattered.

Mrs Thatcher was sitting down for the sixth time with the leader who, as long ago as five years ago, she had declared was a man *"I can do business with"*.

He, despite rising nationalist tensions and the immense obstacles to perestroika, had just tightened his grip again on the Soviet leadership and voiced his determination to push ahead with reform. She was there to offer her support to the first Communist leader who had realised that the system she has spent her political life despising had failed its people.

The Japanese conservative, capitalist, leaders who just two days earlier had been castigated for failing to live up to their international responsibilities would have been bemused to hear her comments on Mr Gorbachev. Bold, courageous, visionary, historic, were the words she used over and over again at a *packed* press conference to describe Mr Gorbachev's policies.

It was hard to escape the conclusion that she now sees in him a reflection of her own datermination to launch the Thatcher revolution in the early, dark, days of her first term. Mr Gennady Gerasimov, the Soviet government spokesman who has become tha cuddly face of glasnost in the Western media, nodded vigorously in approval as Mrs Thatcher dodged controversial qnestions over the Baltic republics.

'Journalists listened to a Mrs Thatcher captivated both by Mr Gorbachev and by the Soviet Union he is trying to build'

Perestroika would sncceed bringing both freedom and prosperity and the chances of lasting peace between East and West were "very much greater".

Mr Gorbachev, who is expected to confirm soon that Mrs Thatcher will be invited next year to be the first Western leader to address the Soviet parliament, could hardly have asked for more. One wondered if the shoppers quaueing to buy not very much at all in Moscow's ill-stocked Gum department store, or the drivers waiting patiently for petrol, were quite as optimistic.

US and Moscow offer to halt military aid for Cambodian rivals

THE US and the Soviet Union have pledged to stop military aid to their respective Cambodian allies under a comprehensive peace agreement for the country, Renter reports from Jackson Hole, Wyoming.

But they have hinted that an early end to outside military aid was unlikely hecause attempts to reach a settlement had failed.

The pledge at tha weekend hinged on other outside parties – such as China – also halting military assistance, they said. The US-Soviet position was outlined in a joint communique issued at the end of two days of talks betwaen Mr Eduard Shevardnadze, the Soviet Foreign Minister, and Mr James Baker, the US Secretary of State.

"The sides declared their readiness to announce, together with other states, a moratorium on military assistance to all Cambodian factions as part of a comprehensive settlement," the statement said.

It ignored US criticism of Moscow for continuing to back Vietnam and its Cambodian surrogate, the government of Prime Minister Hun Sen.

Vietnam is due to withdraw its troops from Cambodia by tomorrow after a 10-year occupation.

A Paris peace conference in July and August failed to reach a political settlement among the four Cambodian factions and civil war is expected to intensify there.

The US snpports two non-communist resistance groups headed by Prince Norodom Sihanouk and Son Sann, who have been fighting to oust Vietnam and Hun Sen.

Before the Wyoming talks, US officials had strongly criticised Moscow and Peking for continuing to supply their Cambodian allies. But they defended Washington's continued support for Sihanouk.

OVERSEAS NEWS

Leftist deputies seek sacking of Pravda editor

By Paul Winfrey in Moscow

AT A weekend meeting, members of the Inter-regional Group of left-wing Soviet deputies demanded the resignation of Pravda editor Viktor Afanasayev, after the Communist Party newspaper printed an attack on Moscow deputy Boris Yeltsin, one of the group's leaders.

"If the central press continues slandering people," deputy Yuri Afanasayev said, "then how can we count on their support for perestroika?"

Meeting in Moscow over the weekend to approve a political platform before the opening of the Supreme Soviet today, the deputies criticised the party's leading newspaper for polarising the political debate and presenting a biased picture of events in the country. One deputy complained that by attacking nationalist movements in the union's republics, Pravda had done more to stir up racial hatred than local extremists.

Last Thursday, Pravda apologised for printing the attack on Mr Yeltsin, which originally appeared in the Italian newspaper La Repubblica. It said the story, which alleged that Mr Yeltsin was drunk throughout his recent stay in America and had spent the money he pledged to AIDS research on consumer goods, was based largely on third-hand sources and unconfirmed reports. In a short notice published on page 3, Pravda apologised to Mr Yeltsin.

People cloee to President Mikhail Gorbachev say the Soviet leader was furious over the article, and personally intervened to demand a printed apology.

Since the advent of glasnost, Pravda has remained the voice of Communist Party orthodoxy. While other newspapers have loosened their style, Pravda has remained rigid, offering up occasionally chilling blasts to remind people that not everyone in the Communist Party is pleased with recent liberalisation. In recent weeks, the paper has attacked the People'e Front movement in Lithuania for being allegedly undemocratic and deecrihed the Ukrainian Nationalist Movement Rukh as "extremist".

Subscriptions to Pravda have fallen sharply, according to latest statistics.

Moscow strives to extinguish the flames of ethnic unrest

Paul Winfrey looks at a new Soviet programme

THE long-awaited Communist Party platform for nationalities, approved at last week's two-day Central Committee plenary session, appeared in the Soviet press yesterday.

Despite the 18 months of work that went into this document, the platform shows little sign of bringing about the "harmonisation of inter-ethnic relations" which it promises.

It remains full of contradictions, leaving it unclear if the party has a coherent policy for coping with increasing ethnic violence among the more than 400 ethnic groups that make up the Soviet Union.

At its heart, the platform is based on a simple compromise: republics like Estonia, Lithuania, Latvia and Georgia will not be allowed to leave the Soviet Union hnt will be granted more regional autonomy.

Special elections will be held in the spring, based on laws to be worked ont in each of the repnblics, te form new Suprems Soviets which will exercise the increased economic and political rights. Moscow reserves the right to condnct foreign policy and "co-ordinate" the economy, but the republics are to be given power to esttle their own affairs, including the right to regnlate their own mineral resources and legislate property relations.

For the 38 "autonomous" regons and areas, Moscow promises to pay more attention to their grievances and to set np more cultural centres to "broaden their legal status".

The contradictions in this approach are evident. In the first place, extending greater democracy to the republics will probably only exacerbate the internecine warfare which is sweeping the Caucasus in Central Asia. Aware that their fates will be decided at the ballot box in the spring, republican Communist Parties are already pandering to local interests at the expense of Moscow's policy objectives.

The Azerbaijani Supreme Soviet, with the support of the local party, recently petitioned Moscow to put an end to direct rule in Nagorno-Karabakh, where Soviet troops have been sent to keep Azeris and Armenians from killing one another.

In Lithuania, the local Communist Party is defying a ban on "factions" in the Party laid down in the policy statement by pressing ahead with plans to form a separate autonomous party organisation.

Likswise, the platform grants regional parties the right to govern their own affairs, hut warns that they may not form "factions," a hair-splitting distinction which promises wrangling over how much autonomy the regional parties can exercise.

The document also gives Moscow a clear edge when conflicts arise. The original draft provided for the creation of a Constitutional Commission to be set up to decide disputes between Moecow and the republics, but the statement approved by the plenum sxtended that right to the Supreme Soviet, a mostly Russian body where Moscow will have little trouble finding the majority to back its interpretation of the constitution.

Most notahly, the document fails to address the central contradictions on which the Soviet Union is founded. Mnch of the growing ethnic unrest is the direct result of policies laid down 70 year ago by Vladimir Lenin. He promised regional autonomy to the peoples who joined in return for pledges to remain in a "union" of free and equal peoples.

This policy has had a damaging effect: nearly each one of the ethnic groups now thinks of itself as something separate and special.

Hassan to begin first Spanish trip

By Francis Ghilès

KING HASSAN of Morocco today begins his first state visit to Spain, amid expectations that the trip will lead to increased trade between the two countries. Spain ranks second only to France as a source of Moroccan imports, worth $365m (£230m) last year and is the third largest market for Moroccan goods, worth $250m (£160m).

Morocco and Spain are also expected to set up a joint commission to study the feasibility of a bridge or tunnel linking the two countries, divided by the Straits of Gibraltar.

Before leaving, King Hassan reiterated his claim to the two enclaves of Ceuta and Melilla, which lie on Morocco's Mediterranean shore.

Another major irritant in relations between the two kingdoms is the fate of the Western Sahara, whose administration Spain ceded to Morocco 14 years ago.

A planned state visit last year was cancelled when Spain voted for a United Nations resolution calling for self-determination in the former colonial territory. Morocco felt the UN resolution was too supportive of the Polisario Liberation Front, which has been fighting the Moroccans ever since the Spaniards left.

China's invitation to UK arms show withdrawn

By David White, Defence Correspondent, in Portsmouth

CHINA has been crossed off the list of countries invited to a naval arms exhibition opening here today, in the wake of the Tiananmen Square massacre.

It was understood to have been withdrawn from an initial list of countries permitted to visit the Royal Naval Equipment Exhibition being held in Portsmouth this week.

However the decision is believed to have been made before recent Labour Party protests over the sale of British avionics equipment to the Chinese military.

The controversy was over UK export approval for the GEC-Marconi defence group to supply "head-up displays" worth £30m, as well as radar equipment, for the Chinese version of the Soviet Mig-21 fighter.

The GEC Marconi contract, signed in March, was a follow up to previous sales of similar equipment dating from 1980. The government said its ban on arms sales to China, imposed after this spring's clashes in the country, did not apply to this kind of equipment.

Mr Alan Thomas, head of defence export sales at the Ministry of Defence, said yesterday: "To my knowledge nobody from China is at this exhibition."

Other countries subject to UK arms export restrictions, such as Iraq, Iran and South Africa, were already excluded.

The exhibition is closed to the general public.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	July '89	June '89	May '89	July '88
US	34,001	31,517	26,234	14,058
UK	35,530	34,494	38,968	38,222
W. Germany	52,101	51,108	50,682	56,060
Japan	82,181	82,655	89,262	82,467
Belgium	9,146	8,618	8,558	7,552
Netherlands	14,907	14,256	13,992	13,242
France	22,957	22,445	23,797	27,044
Italy	38,691	37,345	37,270	27,244

Source: IMF

Refugees 'will help W German economy'

By David Marsh in Bonn

A POSSIBLE tide of 2m ethnic German refugees into West Germany from Eastern Europe up to the year 2000 could boost the country's economic growth rate by an extra 0.3 per cent a year, according to a report commissioned by the Bonn government.

The report, drawn up by the Institut der deutschen Wirtschaft (IdW), a free-market research body close to the Federation of German Industry, concludes that immigration of 2m people would add DM84bn (£28bn) to Gross National Product over the period.

If all 3.5m ethnic Germans in the Soviet Union and Eastern Europe arrived, the boost to GNP – which currently totals around DM2,000bn – would be DM145bn, the report says.

The study does not specifically focus on refugees from East Germany who have been streaming in via Hungary this month. Although some undoubtedly will face social problems, many are expected to have no difficulty in finding jobs in view of their relative youth and mobility.

This year, well over 100,000 so-called "Ubersiedler" from East Germany are likely to add to expected flows of 350,000 "Aussiedler" from the Soviet Union and other parts of Eastern Europe.

The IdW sees the growth stimulus coming from extra demand for housing and consumer goods. Immigration would also add to tax receipts, cut social security deficits and improve labour market flexibility. The initial "bottleneck" effect of higher unemployment is regarded as only temporary.

Mr Otto Vogel, the IdW's chief economist, said the influx was not only soluble but would also be "worthwhile" for West Germany from both an economic and a social point of view.

Mr Hans Klein, the Bonn Information Minister, welcomed the report as backing the government view that the inflows were a support for the economy. Putting the most positive gloss on the conclusions, Mr Klein, who is himself a former refugee from Czechoslovakia, said the immigration amounted to an "economic stimulus programme."

Mr Helmut Kohl, the Chancellor, is certain to use the report's optimistic findings in a public relations exercise to allay worries that the intake of new citizens will be a drain on the economy.

However, the Chancellor may find it difficult to balance the positive tone with his frequent assertions – aimed particularly at heading off streams of asylum-seekers from the Third World – that West Germany cannot afford to become an "immigration country."

E German exodus continues

By Judy Dempsey in Vienna

OVER 800 East Germans crossed at the weekend from Hungary into the West, bringing the number to 19,906.

Both the Austrian and Hungarian authorities had expected 20,000 East Germans to leave for the West, following Hungary'e decision a fortnight ago to allow thousands of East Germans out of Hungary to West Germany.

The unprecedented decision meant that Hungary temporarily suspended a 1969 bilateral agreement with East Berlin which committed both sides to returning to their country, those citizens caught fleeing to the West.

Officials in Hungary have given no indication that the authorities will revert to the agreement, which they say, has in part been superseded by new international agreements signed by Hungary.

In addition, Hungarian officials say those East Germans wishing to leave for the West, will be allowed to continue to do so "in an orderly fashion" and without delay or restrictions.

Talks on embassy fugitives

By David Marsh in Bonn

WEST and East Germany stepped up efforts at the weekend to resolve the fate of more than 800 East German fugitives camped out in Bonn's embassies in Prague and Warsaw.

Mr Wolfgang Vogel, an East Berlin lawyer with long experience of delicate diplomatic missions for the East German leadership, held talks late on Friday in Bonn with Mr Rudolf Seiters, the Bonn Chancellery Minister.

Mr Vogel, who has been East Berlin's emissary for more than a quarter of a century in selling political prisoners to West Germany, is a personal confidant of Mr Erich Honecker, the East German leader.

The Bonn Government refused to say what the outcome of the talks was. But both Bonn and East Berlin are anxious to prevent further tension over the flight of East German citizens, whicb has increased sincs Hungary opened its borders to the West at the beginning of the month.

West Germany is trying to secure passage for the embassy fugitives without complicating relations further among the governments of East Germany, Poland and Czechoslovakia.

Meanwhile the flow of East Germans to the West via Hungary accelerated at the weekend, with more than 800 coming across on their way to West Germany. This took to 20,000 the numbers of East Germans gaining access to West Germany via Hungary and Austria since the beginning of the month.

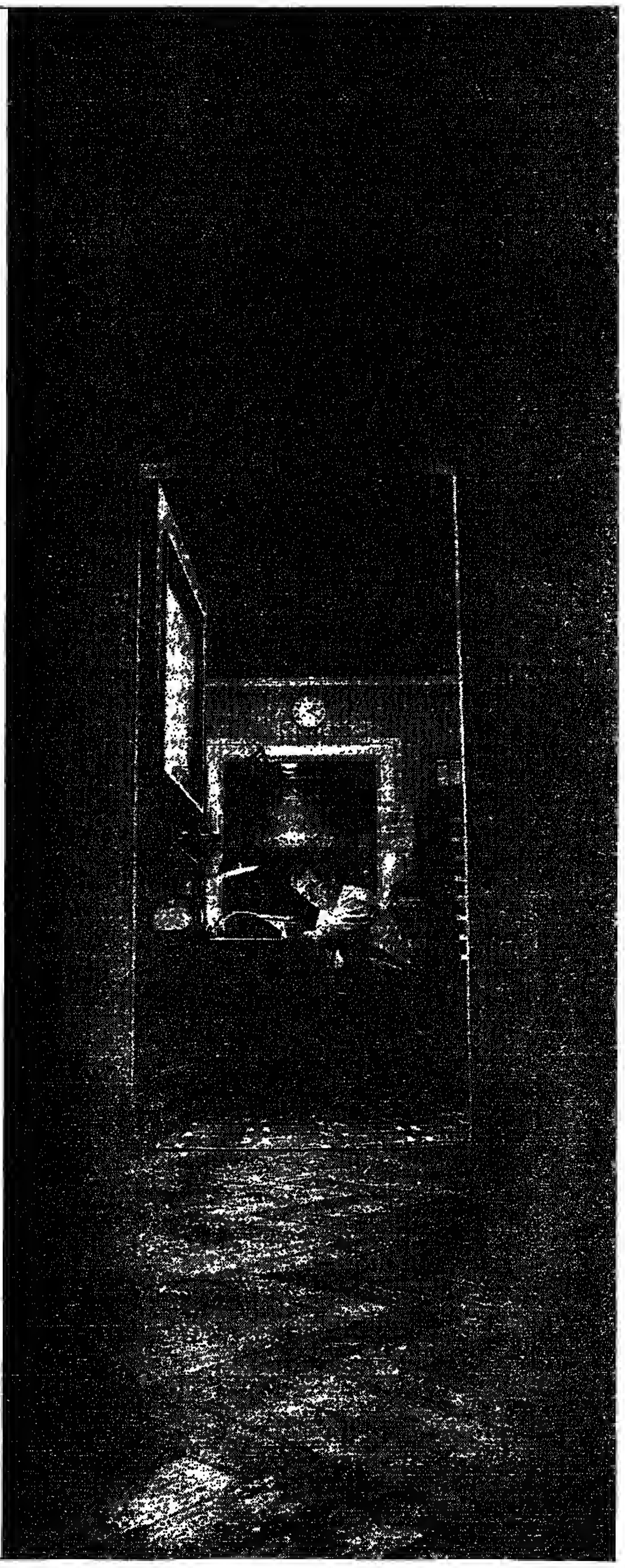
Mr Hans-Dietrich Genscher, the West German Foreign Minister, who is at the United Nations annual meeting in New York this week, is also pursuing contacts to try to handle the case of the East German refugees.

FINANCIAL TIMES

Published by the Financial Times (Europe) Ltd., Frankfurt Branch, represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, F. Barlow, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societaets-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Sir Geoffrey Owen, Financial Times, Number One Southwark Bridge, London SE1 9HL.

FINANCIAL TIMES, USPS No 190640, published daily except Sundays and holidays. US subscription rates $365.00 per annum. Second-class postage and at New York NY and at additional mailing offices. POSTMASTER, send address change to: FINANCIAL TIMES, 14 East 60th Street, New York, NY 10022.

Financial Times (Scandinavia) Ltd, Ottergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (01) 13 44 41. Fax (01) 935335.



OVERSEAS NEWS

South Africa police crack down on protesters

By Patti Waldmeir in Johannesburg

POLICE used violence against anti-apartheid demonstrators and onlookers in Pretoria at the weekend, raising doubts over the South African Government's commitment to allow peaceful protest.

After permitting tens of thousands of people to march through the streets of major South African cities over the past 10 days, the Government banned a planned march by women on the Union Buildings in Pretoria, and dispersed women who defied the ban, using batons and dogs.

At the same time, two rallies organised by white supremacist groups were allowed to go ahead in the city's central Church Square, leading to skirmishes between khaki-clad members of the far right Afrikaner Weerstandsbeweging (AWB) and black onlookers.

Police intervened in the clashes, wielding batons against blacks to disperse them.

The leader of the AWB, Mr Eugene Terreblanche, had earlier addressed about 200 people in the square, while supporters carried a Nazi flag and banners proclaiming that apartheid was a cure for AIDS, and that Nelson Mandela, the imprisoned black leader, should be hanged.

In a later incident, which was not connected with the protests, police chased black shoppers and pedestrians through the streets of the capital, raiding the regional offices of the Congress of South African Trade Unions, as well as a taxi rank and a discothèque.

Witnesses saw a number of blacks, their clothes bloodied by beatings, being hustled into police vans.

Police said later that stones had been thrown, but in a later statement, said that it had been "a relatively uneventful day".

In this and other incidents, over 150 people were arrested. They were later released.

For several hours on Saturday, the centre of Pretoria was filled with the sound of police sirens, and the squealing of tyres as police vehicles raced up and down the city streets.

They erected roadblocks to stop protesters entering Pretoria, and escorted busloads of demonstrators, including Mrs Winnie Mandela, wife of Nelson Mandela, out of the city.

Saturday's police action could indicate an attempt by the Government to regain control over protests which have brought unprecedented crowds onto the streets in recent days.

Pretoria's official reason for banning the women's march was that the women had failed to seek permission from a magistrate, while the two white groups had sought and gained permission.

Political analysts noted that the venue for the march, Pretoria, is the most conservative major city in the country, and white resistance to anti-apartheid protests would be much higher there than elsewhere.

● Police on Friday released the anti-apartheid activist, Mr Willie Hofmeyr, after he had been on hunger strike for 28 days. Human rights groups say at least 250 people still remain in detention.

ICI closes Taiwan chemical plant after protests

IMPERIAL Chemical Industries has been forced by environmental protests to close a chemical plant in southern Taiwan only a few weeks after announcing it had chosen the island for a record $300m (£190m) new project, John Elliott reports from Taipei.

The plant, Kaohsiung Monomer, is 60 per cent owned by ICI and produces an acrylic intermediate known as MMA. It shut after fishermen claimed a sub-contractor was dumping waste acid near the coast instead of taking it 20 miles out to sea.

ICI does not deny the accusation, but says the acid is harmless because it is quickly neutralised by salt water. It has refused to accept a compensation claim for about £24m lodged by local fishermen, partly because it says no evidence exists of any damage, and partly because it is not prepared to set a precedent.

The plant, which has been producing 35,000 tonnes of the acrylic intermediate a year for 10 years, seems unlikely to reopen before the end of 1989. Political pressures are growing over environmental pollution ahead of a general election on December 2, and the government appears to be trying to avoid potentially controversial deals before then.

Industrial pollution has become a sensitive political and social issue in Taiwan in recent years.

Ironically, ICI had started spending $50m on equipment which would dispose of the surplus acid and end the dumping at sea before the fishermen's protests. This forms part of a $100m expansion to double output at Kaohsiung Monomer, which is 40 per cent owned by China Petrochemical Development Corporation, a Taiwan government company.

But the new equipment will not be ready until the end of 1990. ICI has told the Environmental Protection Administration that meanwhile, it will improve its monitoring of sub-contractors' ships and meet new legal requirements on reduced acidity neutralisation before dumping.

The new project, which ICI announced in July, a few weeks before the fishermen's protest, is for a wholly-owned $300m purified terephthalic acid plant to meet heavy demand from fibre industries in Taiwan and elsewhere. This is ICI's biggest single investment in a decade and the company says it chose Taiwan because 100 per cent foreign ownership is allowed and there is a high-grade reliable workforce.

Before the Kaohsiung plant closed, ICI's annual turnover in Taiwan totalled $200m. About 60 per cent came from sales of imported products and the remaining 40 per cent from Kaohsiung Monomer and an explosives joint venture called Atlas Taiwan.

● Taiwan plans to admit as permanent residents more than 60 dissident student leaders from China, who are stranded in Hong Kong and elsewhere, and who risk punishment if they return to their homes.

This step is bound to provoke an angry reaction from Peking, which does not recognise the government of the island of Taiwan but tolerates its autonomy in economic and allied fields.

Mr Lee Huan, Taiwan's Prime Minister, is expected to sign the necessary legal regulations before the end of the month. To qualify, the students must have played a leading role in China's democracy movement and be on the government's wanted list.

Japan's capital spending grows at fastest pace for 15 years

By Stefan Wagstyl in Tokyo

CAPITAL SPENDING by Japanese industry is growing at its highest sustained pace for 15 years as companies invest record amounts in expanding capacity and boosting research and development, according to four recent private surveys.

The Industrial Bank of Japan highlights a switch in emphasis from exporting to the domestic market in response to intensified competition at home.

Companies have over the summer greatly expanded their capital spending budgets for the current financial year to next March, according to the surveys.

In a report this week, the Japan Development Bank forecasts capital investment will grow by 17.5 per cent this year following a 15.9 per cent increase in the 1988 financial year.

It is the first time in 15 years that capital spending has grown by more than 10 per cent for two years in a row, says the bank.

The investment surge is being spear-headed by manufacturing industry, which the bank estimates will raise spending by 26.3 per cent this year following a 24.7 per cent hike in the year to March.

Companies in basic industries – including petroleum, pulp and paper, and food – are chiefly expanding capacity; the vehicle, electronics and textiles industries are concentrating on new product development.

The electronics industry is also putting great emphasis on research and development in order to maintain long-term growth – as are companies in precision machinery, electrical machinery and pharmaceuticals.

According to the report, capital investment outside manufacturing industry is set to grow 11.8 per cent after a 10.6 per cent rise last year, with public bodies and private companies pouring funds into housing, commercial buildings, hotels and transport.

The picture drawn by the Japan Development Bank, which surveyed 2,400 companies, is borne out by similar reports from the Industrial Bank of Japan, the Long-Term Credit Bank, and the Nikkei Shimbun, Japan's leading business daily.

IBJ highlights the switch companies are making from exports to the domestic market.

This is seen as a response to increased competition at home, which has prompted manufacturers to bring out products in shorter cycles.

Production capacity installed for making new products will, to some extent, be matched by the closure of out-dated manufacturing lines, says IBJ.

IBJ believes plant and equipment investment, after rising 17.9 per cent last year, is likely to rise 13.9 per cent – but the bank expects to revise its forecast upwards in the near future.

The Long-Term Credit Bank forecasts that investment in plant and equipment will continue to grow beyond the end of the financial year.

The bank says that some important investment areas – research and development, the establishment of new businesses and labour-saving automation – are not directly affected to short-term economic trends.

So is the structural shift from an export-oriented economy to one led by domestic demand.

The Nikkei newspaper survey emphasised investment in telecommunications. It said: "A communications revolution is sweeping through the industrial and manufacturing sectors.

Companies are pouring money into computers and telecommunications equipment trying to keep pace with, or lead, the rapid changes."

Warning on Israel's finances

By Hugh Carnegy in Jerusalem

THIS YEAR'S Israeli budget deficit was set for alarming levels, Professor Michael Bruno, governor of the Bank of Israel, said yesterday. He cautioned the Likud-Labour coalition not to make it worse by increasing government expenditure.

His warning followed recent moves by the Prime Minister's office to reverse a cabinet decision, taken in July, not to finance through extra borrowing additional spending planned in response to rising unemployment.

Mr Amos Rubin, economic adviser to Mr Yitzhak Shamir, the prime minister, has argued strongly that balancing some shekels 280m (£89m) extra expenditure this year by budget cuts risked further depressing demand at a time of no economic growth.

But Prof Bruno said the budget deficit might reach 8 per cent of GNP this year, up sharply from 1988, mainly because of falling tax revenues caused by the stagnant economy. "This figure is alarming," he said. "The main point is that to balance every increase in government expenditure, there should be budget cuts somewhere else."

Politicians have been frustrated by the lack of growth, persistent inflation and growing unemployment over the past 18 months which has followed a period of sharp improvement after a tough recovery programme was introduced in 1985 to tackle triple-digit inflation.

Prof Bruno said it was important that the government should press on with reforms such as reducing the welfare sector, privatisation, and liberalisation of capital markets.

Voicing an unpalatable political message, he said high unemployment – it stands at near 10 per cent – was to some degree unavoidable as government and industry became more efficient.

● Masked Palestinians axed to death a suspected informer in the Gaza Strip yesterday as PLO leader Yasser Arafat appealed for a halt to inter-Arab bloodshed in the occupied territories, Reuter reports.

About 115 alleged collaborators have been killed during the 21-month-old uprising against Israeli occupation.

Mr Arafat, in a handwritten letter, urged Palestinians to "be a melting pot and halt the internal fighting".

Danes face row over disputed contract

By Hilary Barnes in Copenhagen

DANISH politicians and officials face bitter recriminations following settlement on Friday of a dispute between the Danish government and the European Commission.

The dispute concerned legality of the tender terms and procedures for one of Europe's largest construction projects, the DKr3bn (£250m) road-rail bridge across a section of the Great Belt between Sjaelland and Funen. This is part of a DKr19bn project to establish a fixed link between Sjaelland and the Jutland peninsula.

The Commission regarded Danish transgressions of Community law as so serious that it took the government to the European Court with a demand that construction work be stopped and tenders re-opened.

Friday's out-of-court settlement averted this outcome, which would have been extremely costly, but now leaves the Danes to fix responsibility for the blunders made when the tender material was prepared. The settlement came unexpectedly during the first sitting of the court in Luxemburg to hear the case.

The Commission dropped its case when the Danes agreed to issue a statement accepting that the tender contained a clause contravening the basic principle of non-discrimination enshrined in the Rome Treaty (by referring to the use of Danish materials and manpower).

The government promised to avoid repeating the offence and said the unsuccessful tenderers could seek damages in Danish courts and would be given access to arbitration to recover the costs of their bids.

David Buchan adds from Brussels: Victory in the Danish bridge case was crucial to the European Commission's campaign to open up total public purchasing worth Ecu 300bn (£200bn) in the Community to cross-border competition.

Had Brussels lost the case, "most of our recent efforts to stop national favouritism in public procurement would have gone out of the window," said an EC official yesterday.

Mr Martin Bangemann, the internal market commissioner, tried not to crow over the Danes, describing Friday's settlement as a victory "only for Europe".

But the Commission had been particularly irked by the fact that the Danish government ignored its initial complaint and let Storebaelt go ahead and sign the contract in June.

This placed the Commission and the European Court in a difficult position, because a court injunction stopping the work would have added significantly to the eventual cost of the project.

EC moves to open up all public procurement except defence to cross-border bidding could save the Community up to Ecu18bn (in 1989 prices) over the medium- to long-term, the Commission has estimated.

Hopes rise in pilots' dispute

By Chris Sherwell in Sydney

RENEWED intervention by the Australian Industrial Relations Commission has revived fading hopes of a negotiated solution to the country's costly pilots' dispute, which is now into its sixth week.

The Commission, the country's principal arbitration and conciliation body, is to hold compulsory meetings today with the Australian Federation of Airline Pilots and with the domestic carriers – Ansett, Australian Airlines and the freight group Ipec.

But the 1,640 pilots, who are seeking pay rises of 29 per cent, have made no commitment to accept national wage-fixing guidelines which allow productivity-based increases of 6 per cent.

Neither is there any indication that the two sides will be talking directly.

The move is nevertheless the first clear sign of any mediation since the Commission cancelled the pilots' industrial agreement with the airlines last month.

In the intervening weeks, the pilots have resigned their jobs en masse and the airlines have attempted to rebuild their decimated operations from scratch.

If it persists, this strategy of attrition will delay recovery for the hard-hit tourist industry's flight-dependent businesses, and will add to the country's balance of payments problems.

It will also delay any restoration of public confidence in the domestic airlines system.

The airlines have received full support for their stance from the Labor Government of Mr Bob Hawke, the Prime Minister, and the leadership of the trade union movement.

But the opposition, along *with sectors of business and* left-leaning unions, have attacked the handling of the dispute, and especially what they perceive as Mr Hawke's partisan role.

Opinion polls show the government has slipped behind the opposition Liberal and National Party coalition since the dispute began, although in popularity Mr Hawke remains well ahead of his opponent, Mr Andrew Peacock.

A majority of the Australian people also seem to think that the two sides should negotiate. But an even bigger majority believes the pilots should not be treated as a special case or should have their 29 per cent claim accepted.

Last Friday, a 5pm deadline for the pilots to decide whether to rejoin the airlines under high-paying individual contracts and without a loss of seniority passed without any indication of how many responded.

The airlines had earlier repeated their warnings to the pilots that a failure to rejoin could mean the loss of their jobs altogether.

SHIPPING REPORT

Tanker tonnage inquiries up in most loading areas

By Kevin Brown, Transport Correspondent

A SMALL increase occurred in inquiries for tanker tonnage in most loading areas last week, but the impact on rates was mixed, and some brokers said levels for larger ships weakened slightly towards the end of the week.

The most encouraging sign from the point of view of owners was an increase in the number of inquiries for long-haul cargoes, especially for Ultra Large Crude Carriers (ULCCs) from the Middle East.

Brokers said the London oil majors had been been active in this trade at around New World Scale 47.5 for North Europe or US discharge.

However, a US charterer secured a 280,000 tons Very Large Crude Carrier (VLCC) at NWS 46.5 from the Gulf to the Red Sea, and a ship of 250,000 tons was fixed at NWS 47.5 from Iran to the West.

Rates to the East remained steady. A ship of 250,000 tons was fixed to Singapore at NWS 48, and Japanese charterers appeared willing to pay above NWS 50.

Owners were able to secure additional flexibility for their tonnage by deploying surplus VLCCs in the Mediterranean, where charterers were paying rates in the mid-NWS 50s from Sidi Kerir to North West Europe.

Separatist worries persist as Quebec voters go to the polls

David Owen discovers an undercurrent of doubts about the future of Canada's maverick French-speaking province

Bourassa: cruising to victory

Opinion polls put the Quebec Liberals, led by Premier Robert Bourassa, substantially ahead on the eve of today's provincial election, writes Robert Gibbens in Montreal.

Most polls give the *Liberals* between 80 and 90 seats in the new 125-seat National Assembly, against 35 to 45 for the opposition Parti Quebeçois. In the last Assembly, the Liberals held nearly 100 ont of 122 seats. The Equality Party, backed by *Anglophones angry* with Liberal curbs on English-language commercial signs, could gain two Montreal seats.

AS QUEBEC voters prepare to go to the polls today, their province's future as an enduring member of Canadian confederation can seldom have seemed more assured.

The federalist Qnebec Liberal party, headed by Mr Robert Bourassa, looks like cruising to victory in the election, despite having waged an insipid and accident-prone campaign.

The provincial economy, though showing signs of coming off the boil, has expanded by an average 4.2 per cent a year over the past four years – spearheaded by an aggressive new wave of Francophone entrepreneurs.

The separatist movement – as personified by Mr Jacques Parizeau and the Parti Quebeçois (PQ) – is starting to appear anachronistic.

Yet a succession of puhlic figures lately expressed deep pessimism regarding Quebec's future in the bosom of Canada.

They include Mr Donald Johnston, a former Liberal cabinet minister in Ottawa, Mr Conrad Black, the newspaper proprietor, cclumnists Mr Peter Brimelow of Forbes magazine and Mr Jeffrey Simpson of the Toronto Globe and Mail, and Mr Pierre Pettigrew, an up-and-coming Quebec businessman who served as executive assistant to Mr Claude Ryan during his tenure as leader of the Quebec Liberal party.

Mr Pettigrew confesses to be "more worried about the future of the federation today than I was nine years ago on the eve of the Quebec refersndum [when the province voted unequivocally to remain part of Canada]."

Mr Brimelow recently opined that "it must now be obvious to everyone. . . thet Quebec is leaving Canada."

Why these negative sentiments when all superficially appears calm and serene?

The pessimists' conclusions, by and large, arise from three observations:

● First, they maintain, the struggles of the 1960s and 1970s and subsequent demise of former Prime Minister Pierre Trudeau's vision of a bilingual nation have singularly failed to coalesce into a meaningful affinity for the concept of Canada.

"There is not mnch emotional commitment to Canada here," according to one Montreal-based diplomat. "Bnt they [French-speaksrs] have not found a better hole to go to."

The corollary of this is that Quebec's posture towards the federal government is essentially venal: ths province remains in confederation purely to extort what it can out of it.

Revealingly, a recent campaign address by the PQ's Mr Parizean called on the people of Quebec to support separatism because Canada – weighed down by its crushing public debt burden – is broke.

● Second, Quebec is a predominantly French-speaking enclave in a predominantly Anglophone subcontinent. Its birthrate (1.4 children per woman of child-bearing age) is among the lowest in the developed world – despite government-sponsored financial inducements. Society, accordingly, feels collectively threatened with disappearance or assimilation.

In such circumstances, Quebec understandably maintains that it needs special rights in areas like language legislation and immigration if it is to remain viable.

The trouble is: these can conflict with individual rights. The controversy surrounding Quebec's French-only sign regulations, which were deemed by the Supreme Court to violate the Anglophone minority's right of free speech, provides an example of this so-called clash of minorities.

More fundamentally still, Quebec's stance undermines the principle of equality which underpins any federal state – unless, clearly, the same rights are extended to all confederation members. Once such an erosion becomes accepted, a confederation could unravel very rapidly.

"How can citizens of other provinces be made to accept the fact that they would have less power over Quebec at the federal level than Quebec would have over them?" mused Mr Trudeau 22 years ago.

In the latest attempt to find a mutually-acceptable solution – Quebec's PQ government rejected the constitution when it was repatriated from Britain in 1982 – Mr Bourassa articulated five points which were said to amount to the province's bottom-line.

These were: explicit recognition of Quebec as a "distinct society"; more powers over immigration; restrictions on federal spending power; recognition of Quebec's right to a veto; and a role in nominating Supreme Court judges.

They formed the basis of the Meech Laks constitutional accord, thrashed out by Prime Minister Brian Mulroney and the provincial premiers in April 1987. In most cases, consensus was obtained by offering the powers demanded by Quebec to the other nine provinces.

Among Francophones, the five points are regarded as so moderate that the surprising thing, according to Mr Jean-Francois Garneau, a Bourassa campaign adviser, "is that Meech Lake still passes muster."

However, the agreement looks like becoming stalled in the ratification process. If ultimately rejected, the message to French-Canadians would be that even their *sine qua nons* were beyond the pale in the view of their English-speaking compatriots.

● Finally, the pessimists observe, apprehension in Quebec at the prospect of breaking away has largely evaporated. The province's experience of four years of economic expan*sion followed* by the deep 1982 recession has restored confidence in its ability to compete in global markets. Quebec was among the staunchest Canadian supporters of Mr Mulroney's US-Canada free trade agreement.

Over the past 20 years, furthermore, Francophones have secured more control over the province's financial sector and secondary industries, partly through state-controlled bodies like the Caisse *de Dépôt et du* Placement de Quebec, a powerful pension fund, and Hydro Quebec, the provincial electricity ntility.

As a result, the commonest reaction evinced whsn the *spectre of independence is* raised is one of sublime indifference. "It doesn't really matter whether anything changes or not," says one Montreal-based businessman.

Few would argue that conditions conducive to separation currently exist. Quebec is doing very nicely out of its association with Ottawa. Quite apart from the armed forces, foreign representation and the use of the national currency, the province receives about C$5bn (£2.7bn) more in expenditures, transfers and interest payments from the federal government than Ottawa extracts in taxes.

In addition, Quebec benefits from the bells and baubles that go along with supplying 37 per cent of the MPs in the Conservatives' ruling Parliamentary caucus. A brand new Space Centre, for example, is to be located in the province, bringing in its wake a deluge of federal research and development dollars.

Nevertheless, it does not take a huge leap of imagination to envisage a situation in which these material lures would vanish. Indeed, the urgent need to address the federal government's escalating debt is already significantly altering the equation.

Ottawa's decision to withdraw from the country's unemployment insurance programme means that fewer personal money transfers will be flowing into Quebec – a region of typically above-average unemployment. Meanwhile, various new tax measures, including a *European-style* value-added tax, promise to divert a higher proportion of personal income into federal coffers.

Next June, it may well become clear that a stalemate has been reached in ongoing constitutional deliberations. It is even plausible (if somewhat fanciful) to suggest that the next federal election – probably in 1992 – could produce a governing caucus with few Quebec MPs. This would occur if Mr Jean Chretien – current *front-runner* for the Liberal party leadership – emerged victorious on a strong anti-Meech Lake platform.

In all probability, significant opposition to separation would emerge in Quebec even if all this came to pass. "In 1970, 14,000 troops were in the streets for nothing," says Mr Jean Pare, publisher of L'Actualité, recalling the state of emergency declared by the federal government in response to *two kidnappings.* "If people voted to stay in in spite of that, they must really want to stay." Besides, the country has developed a happy knack over the years of muddling through regardless.

But the likelihood of Quebec's taking the ultimate step should not be underestimated because it has been rejected in the past. The prime motivation then, after all, was outrage at the consistently unfair treatment of the French-speaking majority on its home turf.

The trigger today would be a conviction that Canadian federalism – even when fairly applied – had outgrown its usefulness.

Italy's shrill battle cries give way to harmony

AN AUTUMN in Italy without protesting trade unions, government splits and warnings of the imminent collapse of public finances is as eerie as a spring without birdsong.

For this is budget-making time in Rome, and the process in recent years has needed a confection of crisis to encourage ministers and parliament to take a few difficult decisions to avoid adding to the huge accumulation of public debt.

This year, by contrast, has witnessed calm, confident statements from apparently united economy ministers in Mr Giulio Andreotti's government that the task is being taken firmly in hand, that no emergency measures are needed and that the government is to take a more fundamentally strategic approach to dealing with the nation's most pressing economic problem.

Consultations with trade unions have been so unnaturally smooth that their leaders appeared almost persuaded that this year's budget may include a more convincing

John Wyles looks at the eerie calm of this year's budget-making process in Rome

attack on their recommended priority: widespread tax evasion by the self-employed.

Even that scourge of public spending extravagance, former Finance Minister, Mr Nino Andreatta, said he believed the government was "giving an example of austerity to the whole political class".

These are encouraging notices for a budget whose contents are not yet known, marred only by signs of anxiety in industry. Mr Sergio Pininfarina, Confindustria president, appealed for retention of existing subsidies on social security payments in the face of rumours of a cut. It seems, however, that industry will have to contribute to an exercise which will aim to reduce the trend deficit for 1990 by around L20,000bn to L130,000bn (£59bn) or 10.4 per cent of Gross Domestic Product.

The government's central purpose is to cut the primary deficit – the difference between current expenditure and revenues – from 3.4 per cent to 2.1 per cent to show it is on course to eliminate this deficit entirely by 1992.

Once it does, it begins to erode the annual process of heaping new debt on top of old. Italy's accumulated debt stands at more than L1,000,000bn, around 97 per cent of GDP, and to curb its annual growth, governments must stabilise interest costs.

Since 97 per cent of Italy's debt is funded internally, ministers are aware they must have a strategy for reducing interest rates. Bndget deficits have been rising partly because of the rising costs of financing existing debt.

The current level of real interest rates is a source of growing anxiety. All evidence shows they are a serious direct burden for business because of their impact on financing costs but also an indirect one because of their impact on the lira.

The Italian currency has been one of the strongest in the European Monetary System this year despite a rate of inflation slightly above the EC average. Confindustria calculates that the loss of competitivity versus the D-Mark – and West Germany is Italy's most important trading partner – amounts to 6 per cent because of the lira's appreciation and inflation differentials.

It is true that current interest rates are attracting foreign capital, much of it buying Treasury bills and notes, in unusually large amounts and the lira's strength reflects this. Professor Mario Monti, a leading economic commentator, adds that this is creating a psychological "nirvana effect" which could well erode political will to attack the deficit problem. He is urging the government to bring forward the lifting of remaining capital controls which are due to disappear, by EC agreement, from July 1 next year.

Mr Guido Carli, the Treasury Minister, knows that if he can convince domestic investors in government issues – over half of whom are Italian families – that its debt containment strategy is on course, then it could be able to reduce the "risk premium" currently paid on the debt and head off the risk of a haemorrhage of investment capital abroad.

If the budget lacks conviction, Italy risks being stuck with a high interest rate/strong currency problem. Italian experience in the 1920s and 1930s demonstrates that debt repudiation cannot solve the public financing problem. But more recent experience also suggests that perhaps a more radical approach is still needed. This is why Mr Carli is trying to breathe fresh life into the privatisation debate in Italy.

The introduction of new technology, along with customer demand for more sophisticated information management services, is breaking down barriers and moving the world towards a universal language: Information.

The borders of information management are disappearing.

It's a language Bell Atlantic and its European subsidiaries understand very well.

Through Bell Atlantic International we're supporting worldwide advances in telecommunications with software and systems integration solutions, from value-added services to network management.

Through Bell Atlantic's Sorbus and Eurotech companies, we're maintaining computer and data communications equipment distributing high quality communications products and developing value-added services.

And Bell Atlantic Financial offers a range of computer leasing and related services.

Today, Bell Atlantic is serving Europe from over 50 locations. To see how we can work with you tomorrow, contact us by telefax in France on 01-4270-6809, in Germany on 01-211-139-0837, in Italy on 02-825-4368 and in the United Kingdom on 01-783 0135.

Bell Atlantic

We're More Than Just Talk.

DATA COMMUNICATIONS · TELECOMMUNICATIONS CONSULTING SERVICES · SYSTEMS INTEGRATION · CELLULAR COMMUNICATIONS · COMPUTER MAINTENANCE · FINANCING & LEASING

THE IMF IN WASHINGTON

Outlook good as growth slows to sustainable pace

By Peter Norman, Economics Correspondent, in Washington

THIS is destined to be an excellent year for the world economy. But the International Monetary Fund makes clear that both industrialised and developing countries will have to work hard to maintain growth and keep control over inflation.

In its latest half-yearly World Economic Outlook, the IMF pinpoints three important prohlems to set against a generally satisfactory picture of strong economic expaosion slowing to a more sustainable pace in the indnstrialised world.

It warns that the speed at which the leading industrial countries are correcting their current account imbalances has slowed over the past year. Indeed, the pattern of demand and output growth in the US, Japan and West Germany is expected to produce increases in the US current account deficit and the Japanese and West German surpluses in 1990.

Uoemployment has remained high in some European countries. Ecooomic activity continues to be weak in the heavily indebted developing countries and the low-income countries of Africa. According to the report, Fund staff are "cautiously optimistic" that inflationary pressures in the industrialised countries will diminisb gradually so long as firm anti-inflationary policies are maintained.

However, the IMF points to the danger of complacency. "It will not be sufficient to stabilise inflation at current rates," it says.

The report therefore warns against a premature easing of monetary policy because of the high level of capacity utilisation in the industrial nations. It adds that the present slowdown in ecooomic activity seems unlikely to lead to recession because there is no sign of a large inventory overhang or erosion of profit margins.

However, the generally optimistic report does not absolve countries from taking action to improve their own or the world economies. "It is important to recognise that the difficulties confronted by the industrial countries reflect in large measure deep-seated fiscal imbalances and structural rigidities and distortions," it says.

A notable feature of the IMF report is its forecast of a renewed increase in the US currant account deficit to $138.7bn next year from $125.1bn this year.

Japan's surplus is expected to grow to $89.7bn from $72bn, with the West German surplus increasing to $56.8bn from 53.4bn. Britain's current account deficit is expected to peak this year at $30.6bn before declining to $26.7bn in 1990.

Not for the first time, the IMF urges a reduction in the US budget deficit as a way of lowering the current account imbalances and lightening the task of monetary policy in curbing inflation.

US Treasury Secretary Nicholas Brady and British Chancellor Nigel Lawson before the IMF meeting

The IMF makes clear that it is not opposed to all current account deficits or surpluses. External deficits, for example, can result from differences in saving and investment trends between nations that may reflect demographic differences or technological developments. But it makes clear that some imbalances must be "seen as an indicator of inappropriate fiscal policies" or micro-economic distortions.

The US current deficit fits in the former category. According to IMF staff projections, the US fiscal deficit is likely to grow to $145bn in the fiscal year ending September 30 1990 and $158bn the following year, compared with targets of $100bn and $64bn respectively under the Gramm-Rudman-Hollings deficit reduction legislation.

The IMF argues that a reduction in the federal deficit would make room for an expansion in US exports. However, the US is not the only country needing to adjust its economic policies. Canada and Italy also must cut their budget deficits, and in Japan, West Germany and other countries with current account surpluses the IMF detects "an urgent need" for micro-economic policies to improve the structure of these economies.

Britain, with its large current account deficit, needs to "devote special attention to ramoving distortions that affect private saving and investment decisions". It hints that mortgage tax relief should be scrapped.

If the industrial countries could agree a comprehensive package of budgetary and structural measures, including fiscal tightening, in the US, and efficiency-raising measures in Canada, Japan, and Europe, the world could enjoy higher output and investment, lower inflation and interest rates and a lasting cut in external imbalances between the US, Japan and West Germany.

If nothing is changed and the US continues to pile up foreigi debt as a result of a renewed growth in its current account deficit, foreign investors could turn away from the dollar, causing a sizeable drop in its value. This scenario would cut output in the industrial countries, achieve little lasting reduction in the current account imbalances and add to the debt servicing burdens of developing nations.

In its report, the IMF says the need to restore adequate growth in heavily indebted developing countries remains particularly urgent.

It warns that if the rise of the dollar in the first half of this year is not reversed, the overall debt of developing countries could resume an upwards trend in 1990 after declining this year.

Debt reduction, along the lines envisaged in the debt plan launched this year by US Treasury Secretary Nicholas Brady, could offset such a rise. But the IMF warns that debt rednction is no panacea. Indebted developing countries need to reform their economies to keep inflation low and encourage saving, investment and productivity growth.

In its latest Outlook, the IMF has revised down slightly its forecasts for world output this year and next, mainly because it takes a far gloomier view of economic developments in the Soviet Union and Eastern Europe than it did six months ago. It expects world output will increase by 3.1 per cent this year and 2.9 per cent in 1990 compared with forecasts of 3.3 and 3.2 per cent respectively in April.

However, it expects growth in the industrial countries will increase by 3.5 per cent this year, up slightly from the 3.3 per cent forecast in spring, and by 2.9 per cent next year – unchanged from the level forecast earlier this year. These growth rates would be consistent with estimates of the industrial countries' growth potential. The report envisages growth of 4 per cent in the developing countries next year after 3.2 per cent this year.

Inflation in the industrial countries is expected to ease to 3.9 per cent next year from 4.5 per cent this year. In the developing world, inflation is forecast to drop to an average of 36.3 per cent in 1990 from 85.5 per cent this year.

Commercial banks' importance affirmed

By Stephen Fidler in Washington

GROUP of Seven fioancial policy-makers yesterday affirmed the importance of commercial banks in the international debt strategy, and said a broad array of new loans and debt reduction was needed to support sound economic programmes.

The call comes amid debate in Washingtoo over the implications for tha oew international debt initiative launched in March of the decisions by three New York banks to raise sharply their reserves for possible loan losses on third world lending.

The banks, Manufacturers Hanover, Chase Manhattan and JP Morgan, the latter of which has provided for 100 per ceot of its medium and long-term lending to problem debtor countries, are being interpreted as sending a signal to politicians gathering here for the IMF and World Bank meetings.

The banks have been dissatisfied with the way they have been affected by new debt strategy, which emphasises debt reduction but also recognises the need for new loans.

While it adds strength to the banks' bargaining power in future negotiations, bankers and officials yesterday were saying that is was far from clear that the moves will make it more difficult to put together either the curreot debt package for Mexico, or future deals.

The Mexico package depends on abont 20 per cent of Mexico's current lending banks providing new loans. Citibank of the US, the largest creditor, has already declared its intention to make new loans, while Lloyds of the UK is said to be leaning the same way. A senior monetary official in Washington said yesterday he understood other US banks had given notice that they intended to take the new loans option in the Mexican package.

In some senses, the Morgan move, described as motivated hy a desire to increase the bank's flexihility, has been over-interpreted here. There is clearly a need among US banks to catch up, in the current framework of international standardisation of bank capital, with European lenders.

Morgan's LDC debt exposure is modest compared to many other New York banks, and it is better capitalised than most money centre banks. It has also expressed a desire in the past to move into a more of an advisory capacity with respect to developing countries, something that its move of last week will better enable to do.

Sanior hank officials say their statement about flexibility says what it means, and will not necessarily rule out the provision of new loans in debt packages.

Demographic changes will mean less saving

By Peter Riddell, US Editor, in Washington

CURRENT levels of saving in the main industrial countries may be insufficient, in view of demographic changes over the next 20 to 30 years which will lead to a reduced proportion of active workers relative to young and old dependants.

A special section of the IMF's World Economic Outlook discusses the economic implications of the rise in the population aged 65 and over.

Dependency ratios (that is, the ratio of people aged up to 14 and over 65 to people aged 15 to 64) are expected to rise from 48 per cent now in Japan to 54 per cent by 2010 and 59 per cent by 2020, with an increase in West Germany over the same period from 44 per cent to 51 per cent and 54 per cent respectively. In the US the rise in the ratio is projected to start only after 2010.

An increase in dependency ratios raises the demand for social services, including medical care and pensions, and reduces savings rates as the share of the population that is employed declines.

At a global level the ageing of the population leads to lower savings rates and to higher real interest rates, which depresses investment and lower potential output.

However, differences in the speed of ageing result in large changes in current account imbalances; in the US, for instance, the current account improves by around 2 per cent of Gross National Product over the the next 30 years. But in Japan and West Germany private consumption increases sharply, competitive positions deteriorate and curreot account surpluses decline substantially.

The report notes that "independently of the projected developments for current accounts, the substantial declines in national saving rates that might result from demographic changes in all industrial countries suggest that the current level of savings may be a cause for concern, particularly in view of the tendency for national saving rates to decline in many countries over the past several years."

Call to boost IMF funds

By Peter Riddell

THE finance ministers of Third World developing countries have called for an early and large increase in the resources of the International Monetary Fund while reiterating their annual appeal for a relaxation of lending conditions.

The ministers of the Group of 24 said there should be "a substantial increase of at least 100 per cent in the quotas" of the IMF.

The ministers appealed to both creditor nations and commercial banks to adopt a more sympathetic and flexible attitude towards debt reduction.

They regretted that "debt relief and debt service reduction are granted only to those countries that have made substantial progress in the correction of their macroeconomic imbalances."

The communiqué also expressed concern about the present floating exchange rate system and about the growth of protectionism.

The ministers regretted that the commitments embodied in the Uruguay Round talks have not been observed and violations have continued to multiply.

Lawson stands firm on UK fiscal policy

By Peter Norman in Washington

Mr NIGEL Lawson, the UK Chancellor of the Exchequer, yesterday gave a strong indication there will be no easing of Britain's tight monetary policy ahead of next month's Conservative Party Conference.

Discussing the world economy in a speech to the policy making Interim Committee of the International Monetary Fund (IMF) he said it would be a "serious mistake" for governments to accommodate inflationary pressure.

Mr Lawson said he saw no significant danger of recession in either the world or the British economies. A greater danger than recession was that a "misplaced fear recession might lead to unwillingness to persist with the measures needed to keep on top of inflation," he said.

Mr Lawson's tough stance was backed yesterday by the International Monetary Fund. In its latest World Economic Outlook, the IMF said a relaxation of monetary policy in Britain "would not be appropriate at present" because of "persistently high rates of wage and price increase" and Britain's large external deficit.

The IMF also the urged the Government to maintain a tight fiscal policy. "The budgetary surplus that is envisaged for the next fiscal year is by no means excessive in view of the overriding objective of reducing inflation," it said. In his speech to the Interim Committee, the Chancellor said domestic demand in Britain was likely to grow at less than half last year's 7 per cent rate because of the tightening of monetary policy.

He said that output growth also had slowed "from about 4.5 per cent in the last two years to a rate more or less in line with domestic demand." He added that as growth in domestic demand falls below output growth, Britain's current account deficit will decline.

This year's IMF annual meeting has been marked by an truce between Mr Lawson and the IMF over the gravity of the UK current account deficit. Mr Lawson said yesterday it is wrong to give current account balances the same priority as growth and inflation.

The weekend meeting of the Gronp of Seven brought no apparent progress over the issne of increasing the resources of the IMF through a boost in its quotas or subscription rights.

Mr. Lawson, however, appeared to open the door to compromise on Japan's wish to move from fifth position in the IMF to displace Britain as number two.

One suggestion here is that the US should stay as the IMF's biggest shareholder with veto powers, with West Germany and Japan sharing second rank and Britain and France as the next largest shareholders.

UK NEWS

Drugs price war risk as UniChem reduces charges

By Peter Marsh

UNICHEM, a leading pharmaceutical wholesaler, is cutting the prices of some of its drugs by up to half. The move may lead to a price war in a fast-growing section of the £2bn-a-year UK market for prescription pharmaceuticals.

The move by UniChem, a co-operative owned by 5,500 independent pharmacists, applies to its distribution of generic drugs, which are cheap copies of off-patent, branded medicines. The wholesaler plans to reduce its prices to pharmacists by forcing slimmer margins on the companies that supply it with generic medicines.

The generics business has grown rapidly in recent years and accounts for annual sales of some £250m. That is a little over 10 per cent of the total UK market for those drugs which are available only through a doctor's prescription.

The wholesaler's plans are likely to have a big effect on many of Britain's 12,000 pharmacy outlets, as well as on UK makers of generic drugs. Most such companies are small businesses that compete heavily with the mainstream, research-based pharmaceutical industry.

UniChem is, with AAH Pharmaceuticals, one of the top two UK drugs wholesalers. Both companies buy drugs from manufacturers and supply pharmacists. Each accounts for distribution of roughly a quarter of total UK pharmaceutical sales.

Unichem will introduce its new system of buying generic drugs on Sunday. Under the old system, Unichem bought its generic drugs from a range of specific manufacturers on the basis of long-term contracts. It then sold them to pharmacists under its own brand name.

Instead it will buy most of its generic drugs on a short-term basis from a wide range of manufacturers, selling under the makers' names. Mr Peter Dodd, chief executive, said that would give Unichem greater flexibility of supply and lead to lower prices.

Mr Dodd said the change would allow UniChem to cut prices of many generic drugs by 30 per cent to 50 per cent. The company hopes the cuts will prove attractive to pharmacists and so boost its own generics sales.

Pharmacists can generally increase their profits if they buy medicines cheaply, as the Department of Health reimburses pharmacists at set rates for medicines they dispense.

Code urged for city technology colleges

By David Thomas, Education Correspondent

THE LABOUR Party has urged the Government to introduce a code of practice determining how parents should be consulted about proposals to close down schools and turn them into City Technology Colleges.

CTCs, the controversial business-sponsored schools designed for pupils aged 11 to 18 with an aptitude for science and technology, were originally intended by the Government to be set up on greenfield sites.

However, there have been difficulties in securing sites for the 20 planned CTCs.

That has prompted the college backers to persuade governing bodies and local authorities to propose closing existing schools and reopening them as CTCs.

In some cases, that has met fierce opposition from parents of children at the existing schools.

In one recent case, for example, 97 per cent of parents on a 55 per cent turnout voted against a proposal for the Sylvan School, Croydon, to be made into a CTC.

Mr Jack Straw, Labour's education spokesman, has outlined his concern in a letter to Mr John MacGregor, the Education Secretary.

Mr Straw has asked the Government to introduce a code detailing the procedure for assessing the wishes of parents with children at an existing school.

Mr Straw argues in his letter that it would be hypocritical of the Government to take note of a parental vote for a school to opt out of local authority control, but not of a parental vote against a school becoming a CTC.

Blunt Mancunian means business at UCL

David Thomas shows why many academic eyes are on a trail-blazing industrialist

THE transformation of Mr Derek Roberts from a senior industrialist into a top university administrator is starting to bear fruit.

Mr Roberts took over as Provost of University College London, in April, quitting his post as technical director of General Electric Company. It was the first time a large British university had appointed an industrialist as its head.

The pressure on all Britain's universities to rely less on government funding, partly by making closer links with business, means Mr Roberts's progress is being watched far beyond UCL's confines.

Today sees one of the first changes introduced by Mr Roberts, with the formation of a wholly owned subsidiary company of the college, UCLi through which all its commercial activities will be channelled.

Further moves are in the offing, to decentralise cost control and income generation to UCL's departments, leaving college administrators to oversee policy and central services.

One of Mr Roberts's goals is to end the public perception of British universities as either intellectually distinguished, like Oxford and Cambridge, or close to industry, like Salford. He believes it is possible to be both.

He points out that UCL came fourth, nationally, in the recent exercise to rank the quality of university research. It was behind Cambridge, Oxford and Imperial College, London. It also has a large portfolio of research contracts with industry.

It may have come as a shock to UCL's academic staff to learn that their new boss, a blunt Mancunian, regularly arrives in the Provost's office at 7.30am, but Mr Roberts is happy to return the compliment: "My biggest surprise was to see just how hard-working and dedicated most of UCL's people are."

Mr Roberts plans to build on moves already forced on the college by the financial squeeze of the 1980s. It tightened the management of its patents, for example, to avoid further losses of income running into millions of pounds, resulting from amateurish administration of its discoveries.

UCLi's job is to extract maximum benefit from the college's industrial links. All the college's research contracts,

Derek Roberts: tribute to dedication at UCL

patents and short professional courses will be overseen by its 18 staff. UCLi is projected to have an annual income of £11m within two years, as against the college's present total annual income of about £100m.

Mr Roberts has created UCLi as a company, partly to appoint people with commercial experience as part-time members of its board – Mr Stuart Chalfen, legal adviser to BAT Industries, is its first chairman – and also to work outside academic pay scales.

He believes these are too rigid and low for the skills of a commercial outfit like UCLi.

He wants UCLi's staff to be paid a bonus of up to 20 per cent of their salary, varying with the level of profits the company generates for the college. He envisages paying the going rate for people recruited from the City or industry.

Mr Roberts is also thinking about how to tap outside capital and knowhow for companies spun out of UCL's research activities. That might involve setting up another holding company, with equity participation from a body like a venture capital group or bank.

As part of this sharper commercial focus, the costing of UCL's research activities is being overhauled. As a first step, all the college's contracts will be costed by adding 120 per cent to their direct costs, such as the time of academics, to make allowance for college overheads, such as libraries, used during research.

The approach follows the lines of recommendations from the Committee of Vice-Chancellors and Principals, which believes many British universities are undercharging for their research.

However, Mr Roberts sees a large mark-up for overhead costs as difficult to explain to industrial customers. He would prefer eventually to give UCL's departments more information about their costs, which would then feed through into more precise contract pricing.

That would mean giving departments data on the cost of the space they occupy and on the depreciation of equipment they use. They might also be asked to "pay" for their slice of central services such as libraries.

In return for greater responsibility for their costs, UCL's departments will probably keep a higher share of the income they generate from outside activities.

Mr Roberts plans to delineate the details over the next year, but the thrust of the philosophy is clear: to give departments more freedom to make their own trade-offs – a department might surrender space in return for more equipment.

UCL's new Provost retreats into uncharacteristic reticence only when asked whether the new set-up will bear an uncanny resemblance to GEC's famous devolved management structure.

Graduates offered small-company matching service

By Richard Tomkins, Midlands Correspondent

UNIVERSITIES and polytechnics in the Midlands will this week launch a scheme that aims to match graduates with job vacancies in smaller companies.

The purpose of the scheme is to increase the relatively low proportion of graduates entering small businesses by improving the flow of information about career opportunities. Smaller companies lack the resources to tour universities and polytechnics looking for potential recruits in the same way large employers do.

The scheme, based at Loughborough University in Leicestershire, is called the Graduate Employment Matching Service (Gems), and has been running experimentally since January with the help of a £30,000 grant from the Department of Employment.

It works like a computer dating bureau, aiming to marry the needs of smaller companies with the skills and interests of graduates leaving the 12 universities and polytechnics in the Midlands.

Graduates entering the job market are invited by their university or polytechnic to tell Gems what types of job they are looking for, what degrees they have, what sort of company they want to work for and where.

Gems contacts smaller companies by direct mail or through chambers of commerce and trade associations. It asks them what gradnate career opportunities they can offer and what degrees they require.

Companies receive the names and addresses of suitable candidates, and graduates are told which companies have been given their details.

The service is free to users and is financed by the grant and an estimated £60,000 sponsorship in cash, staff and equipment from companies including Prudential Corporation, International Business Machines, Cadbury, Citibank, Legal & General, Lucas Industries and Access.

During its experimental period it built up a register of abont 460 companies and 500 graduates. Most of the companies on its books have between 50 and 500 employees.

Health reforms 'may mean less screening'

By Alan Pike, Social Affairs Correspondent

THE PROPOSED health reforms might lead to a reduction in screening programmes for patients at risk from treatable conditions, the Association of the British Pharmaceutical Industry says today.

In a report distributed to all MPs and more than 200 members of the House of Lords, the association says that would have "disastrous consequences" for patients who might otherwise be spared premature death or disability.

It would also make economic nonsense, because any savings on medicines in the short term would be outweighed by long-term treatment costs, according to Dr John Griffin, the association's director, in a foreword to the report.

He says: "Prevention is not only better than cure; it is cheaper."

The association fears that the health reforms will inhibit screening for conditions such as heart ailments, stroke and blindness. Its views arise from plans to introduce drug budgets for family doctors to cut prescribing costs.

It believes that will make it "almost inevitable" that, to save money on medicines, doctors will reduce screening programmes that could identify patients needing long-term drug therapy.

"Cutting the drugs bill to reduce NHS costs is a narrow, blinkered approach," the association says. It completely overlooked the other side of the equation: that medicines were a cost-effective therapy.

● The number of people with drink problems is rising, yet there has been no concerted action by the Government and other statutory authorities to provide them with the help they need, the charity Alcohol Concern says in a submission to the ministerial group on alcohol misuse.

Nursery aid for city staff crisis

By Ian Hamilton Fazey, Northern Correspondent

TWO CITY centre nurseries are planned for Liverpool by leading companies and trades unions to help overcome acute shortages of skilled office and other white-collar workers.

The project is led by the Merseyside Chamber of Commerce through a working party chaired by Mrs Linda Morris of the Equal Opportunities Commission.

Mr Keith Robinson, the chamber's director, said yesterday: "It is becoming critical both to parents and employers that we get at least one creche-cum-nursery going."

UK NEWS

Hanson dismisses BAT bid reports

By Nikki Tait

MR MARTIN TAYLOR, vice chairman of Hanson, yesterday dismissed a report that the UK-based conglomerate was poised to enter the battle for BAT Industries, the diversified tobacco group. "We have no plans in that direction," he said.

There have been persistent rumours that Hanson, whose reputation has been built on its takeover skills, might be interested in BAT. Some analysts believe that Hanson will have examined the possibilities.

There has also been unconfirmed speculation that the mid-July timing of the £13.5bn ($21bn) all-paper bid for BAT by Sir James Goldsmith's Hoylake consortium was partially dictated by Hanson's preoccupation with its £3.5bn acquisition of Consolidated Gold Fields.

Mr Taylor could not comment on the suggestion that Hanson asked for a presentation on BAT's tobacco interests two weeks ago. However, he was emphatic that Hanson had no plan to become involved in the BAT battle.

BAT added that there had been no significant contact with either Hanson or its normal advisers during the current bid battle. A tight watch has been kept on BAT's share register, and it said it was fairly confident that Hanson was not a shareholder.

One reason sometimes advanced for Hanson's interest is that, because of its takeover of Imperial Group, it takes in the UK-based Imperial Tobacco business, including the Regal, Embassy and John Player brands, while BAT owns Brown & Williamson in the US - with brands such as Kool and Raleigh - plus a variety of other international interests.

The BAT tobacco businesses made a trading profit of £756m in 1988, while Hanson's total trading profit in the year to September 1988 was £770m. Since then, Gold Fields has been added, but few analysts expect all its assets to be retained by Hanson.

Tory Party received £3.5m from companies

By Ivor Owen,

THE Conservative Party and allied organisations received a total of £3.5m ($5.5m) from 275 leading public companies last year, according to the Labour Party.

The research by the party's policy directorate looked at the published accounts of 1,500 British companies.

Taylor Woodrow, the civil engineering and construction company, was identified as the biggest contributor, giving £111,000 to the Conservatives and £20,000 to the British United Industrialists, a front organisation for the Party.

Brewers had contributed just over £250,000 between them. Mr Frank Dobson, Labour's campaign co-ordinator, singled out Lord Young, who initially endorsed a Monopolies and Mergers Commission report recommending the ending of the "tied house" system which prevents pubs from stocking beers other than those supplied by the brewer that owns the premises.

Mr Dobson said "he (Lord Young) was told he had to change his mind, and is no longer a member of the Government."

"It seems you do not have to pay an enormous amount to the Tory Party to influence the Tory Government," he said, and described a donation of £100,000 made to the Conservative Party by P&O, the transport and construction group, as a "good investment."

He said the Conservatives' published accounts acknowledged a total income of more than £15m in 1987. Just over £4m was donations and £1.2m came from local constituency party associations, leaving almost £10m unaccounted for, he said, which must have come from "secret" sources.

Labour published the names of 49 companies which gave the Conservative Party more than £25,000 in 1988.

They include Allied Lyons (£95,100), British and Commonwealth (£90,000), United Biscuits (£85,000), Hanson Trust (£80,000), Whitbread (£76,500), Consolidated Goldfields (£75,000), Racal Electronic (£75,000), Trust House Forte (£61,500), Hambros (£61,000).

IT groups are failing to recruit

By Our Labour Staff

EMPLOYERS of information technology staff are largely failing to amend recruitment and training methods to tap sources of staff other than young men who are already skilled, according to a Government-sponsored study.

The three-year study finds that despite growing difficulties in attracting staff, there has been only a small growth in the employment of women and re-training of older workers is considered time-consuming and costly.

The study by the Institute of Manpower Studies finds that there are now about 240,000 professional IT staff compared with 200,000 in 1985. The annual growth rate has slowed to between 4 and 5 per cent.

External recruitment, principally of trained and experienced staff, continued to be the means of filling 54 per cent of vacancies. New graduates accounted for 29 per cent, and internal transfers 9 per cent.

The exceptions to this pattern were organisations such as the Civil Service with a strong tradition of "growing from within," and in which the ratio of internal to external recruits could be two to one.

The number of IT staff aged over 30 had almost doubled between 1985 and 1988 as a result of ageing of the existing workforce.

The Changing IT Skills Scene: IT Manpower Monitor 1988; IMS Report No 173; IMS, Mansell Building, Sussex University, Falmer, Brighton, Sussex BN1 9RF; £18.00.

Upward pressure on pay deals 'likely to remain over winter'

By Our Labour Staff

THE strong upward pressure on pay deals is likely to remain until next spring, with settlements tending to fall between 8.5 and 9 per cent, according to a survey of the pay intentions of 420 big employers.

The annual survey by the pay research group Industrial Relations Services finds that settlements will continue rising until they reach a plateau at the end of winter. This is in spite of the forecast fall in the inflation rate.

About 45 per cent of employers expected to be settling higher between September and August 1990 than they did in the year up to August 1989. One in four expected the same level of increase and only one in five a lower settlement.

Some 70 per cent of those with settlement dates between September and November intended to settle higher, with most settlements between 1 and 3 per cent up on the same period last year.

The most important single factor influencing pay was reported to be inflation, and pay comparability both nationally and in regional labour markets was found to be assuming greater importance.

Other upwards pressures on pay were found to be productivity factors, labour and skill shortages and general recruitment difficulties.

The report finds that pay settlements are unlikely to spiral out of control. However, they are also unlikely to level out in response to the fall in inflation as quickly as the Government has urged.

Merit pay systems were found still to be attracting interest, with over 80 per cent of respondents citing merit as an important factor.

Pay and Benefits Bulletin No 240; IRS, 18-20 Highbury Place, London N5 1QP; by subscription.

Austin Rover's minorities policy lifts job interest

By John Gapper, Labour Correspondent

MORE school-leavers have applied to join Austin Rover, the UK vehicle manufacturer, for the first time in three years after the company revised its recruitment and training polices to encourage more ethnic minority youngsters.

The 10 per cent rise in the number of applications comes despite the fall in the number of school-leavers, which is particularly pronounced in the West Midlands. Applications fell by 10 and 5 per cent respectively in 1988 and 1987.

The company has raised the percentage of ethnic minority recruits to about 20 per cent from some 7 per cent in Birmingham after introducing training initiatives to make up for low educational standards.

The success of the venture, part of an initiative by 10 big employers in the West Midlands to raise ethnic minority recruitment, has led to a second group of 10 companies getting together to improve recruitment practices.

Although some companies have made efforts to improve ethnic minority recruitment, it has been an area relatively neglected by many employers compared with efforts to recruit more women or older workers.

Among the changes that Austin Rover had made were:

- The timing of recruitment as ethnic minority youngsters tended to apply later.
- Insisting on two managers for every recruitment interview to monitor and balance any racial prejudice.
- Distributing recruitment leaflets more widely in Birmingham and the Midlands.

UK Aerospace sector flying into a storm

Paul Betts on how the unions have selected flagship sites for industrial action ballots

Britain's engineering unions have struck at the heart of the aerospace industry by picking on a select number of highly symbolic sites for balloting on indefinite industrial action in support of a reduction in the working week to 35 hours.

The threat of serious industrial action could not come at a more delicate time for Britain's aerospace sector, currently stretched to meet customer commitments in a booming commercial aircraft market, as well as wrestling with the global shake-up taking place in the defence side of the business.

The unions have selected the flagships of the industry, including British Aerospace, Rolls-Royce and the aerospace components supplier Smiths Industries. The action would cover nearly 24,000 workers and could become the most significant in Britain's private sector since the late 1970s.

All three companies are currently engaged in an increasingly competitive world market against US and other European competitors.

But industrial action could also have major implications for the international customers and partners of these key British aerospace companies.

The BAe Chester facility, one of the seven plants which will ballot in the next two weeks, manufactures parts of the wings for the European Airbus, currently struggling to meet production targets for its growing aircraft order book.

They are also involved in the production of BAe's 125 corporate jet line, which is facing fierce competition in a growth market from European and American corporate jet manufacturers.

Smiths Industries' Cheltenham plant is one of the company's principal aerospace components facilities and its largest customer is Boeing, the US aircraft manufacturer, which is also facing an increasingly heavy order backlog.

The Cheltenham plant exports 70 per cent of its production and is an eloquent illustration of the heavy reliance on export business of the aerospace industry in general.

Figures released last week by the Society of British Aerospace Companies show that industry exports rose by 25 per cent to £3.3bn ($5.2m) in the first six months of this year, from £2.6bn in the first half of last year. Total exports reached £8.05bn for the whole of last year.

Sir Ralph Robbins, deputy chairman of Rolls-Royce, has warned that the effect of the strike would be "immensely damaging to the company."

In a highly competitive international market environment, he claimed: "We have been winning the battle for orders, but we still have to improve our efficiency to get maximum benefit from those orders that have been won on tight prices and demanding delivery dates."

He added that Rolls-Royce was currently working a 39 hours working week, against the 40 hour working week of the company's main rivals in the US, General Electric and Pratt and Whitney.

He warned that to reduce the working week to 35 hours would "make us uncompetitive in the world markets" and would damage the company's prospects for the future.

Rolls-Royce has reported a strong advance in first half profits, but Sir Ralph said the performance would have probably been even better if the company had not suffered from an overtime ban last year which continued to have repercussions on the group at the beginning of this year.

The unions are attempting to strike at both Rolls-Royce's commercial and military engine business.

In the same way they are seeking to hit one of the most profitable parts of BAe, its military aircraft business, as well as the commercial aircraft operations, which have just reported an operating profit for the first half of this year – three years before the company's original target.

Sir Raymond Lygo, BAe's chief executive, sent a letter to the company's employees this week warning them of the dire repercussions a 35 working hour week would have on the company and their jobs.

"A 35 hour week will force costs up and reduce capacity," he wrote. "This will damage our competitiveness and we will lose our market share. This means reduced orders and fewer jobs."

BAe officials claimed that the unions were targetting a select number of plants as "shock troops of a campaign the engineering unions cannot carry out as a whole."

UK NEWS

IBA chief plans to discourage TV franchise trade

By Raymond Snoddy

MR GEORGE RUSSELL, chairman of the Independent Broadcasting Authority, plans tough financial measures to discourage successful bidders for new commercial broadcasting licences from selling them.

The IBA chairman also made clear at the weekend during the Royal Television Society's Cambridge convention that he would use financial penalties to make it expensive for those taking over new franchise holders in the first year.

The Government has rejected IBA pleas for a one or two-year moratorium on take-overs of commercial television companies after the new round of franchises, to begin broadcasting in 1993.

However, Mr Russell – who will also be chairman of the Independent Television Commission, the body replacing the IBA – warned that he planned to use the system of performance bonds to ensure more stability during the transition.

Companies will have to put up bonds – perhaps each of £30m – which could be forfeited if they failed to carry out programme promises.

Mr Russell made clear that he would use the weapon against those who were awarded franchises and then sold them in 1992 – the year before the new broadcasters actually go on air.

The biannual Cambridge convention was marked by growing tension between advertisers and broadcasters.

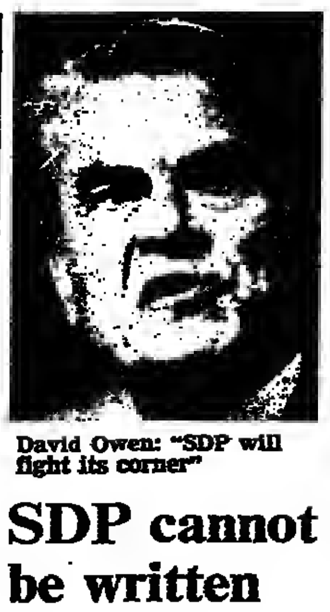
Mr Paul Fox, president of the RTS, said at the end of the convention there was "a feeling of confidence that the changes ahead will be made to work and be made to work well in the interests of the viewers."

Earlier, Mr Michael Checkland, director-general of the BBC, announced the setting up of a new company to develop night-time subscription services that can be received automatically from special video recorders.

To add to the existing special service for doctors, the BBC will be launching a financial service in the new year in conjunction with the Financial Times and Broadcast Communications, an independent television company being bought by The Guardian and Manchester Evening News. Mr Checkland warned that subscription was a mechanism to earn additional money from new services rather than a potential substitute for the licence.

"Public-service broadcasting has to be available to all, wherever people live and whatever their circumstances. Subscription is a market mechanism that simply cannot apply to all," he said.

At the moment, the BBC licence fee is linked to the retail price index.



David Owen: "SDP will fight its corner"

SDP cannot be written off, Owen declares

By Michael Cassell

DR DAVID OWEN, the leader of the Social Democratic Party, yesterday gave an eve-of-conference pledge that his party intended to "fight its corner" and that it could not be written off as a political force.

Dr Owen, whose principal task this week will be to restore morale among the rapidly dwindling ranks of supporters, also renewed his call for a pre-election coalition, capable of depriving Mrs Thatcher of a fourth general election victory.

His party meets today in Scarborough as the latest Harris opinion poll gives it 3 per cent support among voters, against 6 per cent for Democrats and 7 per cent for Greens.

The conference might prove decisive in determining whether the SDP can retain sufficient support to maintain its organisation, and continue to attract sufficient funds to stay afloat.

The party says it has about 11,000 members, although fewer than 600 delegates are expected to attend the three-day gathering.

Dr Owen said opinion polls indicated about 20 per cent of voters still supported the centre ground, which was split but could agree to act together. He claimed the SDP intended to fight between 100 and 200 parliamentary seats at the next election, although it planned to concentrate its resources on about 10 seats, including the three already held.

He doubted that Labour could win the next election on its own. He said he wanted to persuade it to accept proportional representation and to become the leader of a pre-election coalition. Otherwise, Dr Owen added, Mrs Thatcher was likely to win again.

He continued: "The centre is split, which is a pity, but it still counts". He said there was a very real role for the SDP in moderating the extremes of other parties' policies, keeping alive its own agenda and maximising the appeal of the centre ground. "You cannot write us off. We are small but we have influence and are saying things people want to hear," Dr Owen added.

Today's debate on the party's future is expected to expose the extent of members' concern about SDP prospects.

Green Party divided over electoral reform pacts

By Ralph Atkins in Wolverhampton

THE GREEN Party split yesterday almost exactly in two over a motion proposing pacts with other opposition parties on the single issue of electoral reform.

Ms Sara Parkin, the most prominent of the party's speakers, won a narrow majority in support of her emergency motion, but failed to get the required two-thirds support. The vote signalled the determination of a strong faction not to compromise in attempts to consolidate the party's success in the European elections.

However the count, of 256 for and 232 against, highlighted marked divisions within the party at the end of its four-day Wolverhampton conference.

Although the party was encouraged yesterday by a newspaper poll putting the Greens on 7 per cent - which is ahead of the Social and Liberal Democrats - such disputes might damage confidence.

At a press briefing later, Ms Parkin said she had held talks about her proposals with Labour members of the European parliament and the House of Commons, but declined to list names.

Her defeated motion would have meant local Green parties seeking to co-operate with Labour, the SLD, the SDP and Scottish and Welsh nationalists.

A single candidate would have been adopted in each constituency to fight Conservative candidates on the single issue of proportional representation. Another election would have been called once a new system had been agreed.

Further indications of widespread opposition among Greens to electoral pacts came in elections at the weekend for four places on the Green Party Council, its administrative body. The results were seen as a win for those anxious to keep the party's independence.

One successful candidate, Mr Nick Anderson, stood on a manifesto of "no pacts, no compromise, no one leader." Yesterday's decision on election pacts followed the adoption at the weekend of a motion stating that the Green Party "provides a new and radically different political alternative to conservatism, socialism, liberalism and anarchism."

Its intention was to clarify the identity of the party and dispel accusations that the party is heavily aligned to extreme left-wing ideologies.

The Parkin motion provoked heated debate at the conference and prompted the chairperson to order a minute's silence, or "attunement" to clear the aggression. Ms Parkin told the conference there was an urgent need to pressure Labour into reconsidering its opposition to proportional representation in Britain.

"If we are serious about wanting power for our ideas and about doing something about the very real problems we face, then we have to challenge the other parties," she said.

However, other members were wary about trusting Labour. Mr Geoff Collard, of Bristol Green Party, said: "This is going to be seen for what it is - a publicity stunt – and it is going to backfire badly."

Planet's defenders ignore rules of politics

Ralph Atkins analyses the Green Party's chances of success after its conference votes

THE self-appointed defenders of the planet and scourges of pollution-creating economic growth left Wolverhampton yesterday, bluntly – and maybe recklessly – refusing to conform to the normal rules of British politics.

The Green Party, at its four-day conference, showed no desire to appoint a single leader. It signalled no inclination to change its rambling organisation or to soften its far-reaching, almost revolutionary policies to attract voters.

Buoyed by the 15 per cent of votes it won in the June European elections, the party was confident of future election prowess. For the first time, members could talk realistically, seeking real influence – at least on local councils.

The Green Party had to seek "power for our ideas," said Ms Sara Parkin. What was lacking was a compensating dose of scepticism about how long its mostly favourable media coverage can last and a rigorous questioning of how an election system that has scuppered the aspirations of many a minor party can be overcome.

If the green vote proves merely a protest intended to persuade conventional parties to put environment higher in the agenda, the Green Party is likely to find that this has been its finest hour.

Central to the case against future Green Party success is the enormous gulf between it and other parties.

Greens cannot be presented as a single-issue pressure group. Highest priority is given to defending the environment, but that, it believes, embraces change in every other sphere. Little is negotiable – changes in direction or policy reviews, as witnessed periodically in other parties, are not on the agenda.

"We are sitting at the side whistling quietly, with a manifesto filled already because it was done while we were in the wilderness," said Mr David Icke, party speaker.

The Manifesto for a Sustainable Society, the party's policy bible, is uncompromising; nuclear weapons should be abandoned, the UK should withdraw from Nato, population growth must be discouraged (although the conference has removed the long-term target of 35m-40m for the UK), unrestrained free trade to be curbed, energy resources conserved, consumption discouraged.

At the extreme, some aspects are, at best, woolly and, at worst, badly thought out and potential electoral suicide.

On the economy, for example, the party has a rough vision of what it would like to achieve: a society less dependent on big manufacturing companies and based on smaller-scale, localised production.

The emphasis would be not on Gross National Product but measures of human well-being. It is divided, however, on even basic questions such as whether it is against capitalism, let alone more immediate issues about tax policy or what it would do about inflation or the exchange rate.

Within the party there is division on how important it is to have policies on such immediate issues.

Some have characterised it as a split – in the terminology of the West German greens – between "realos," wanting to push for electoral success, and "fundos," wishing to preserve Green Party theology.

In truth, it is hard to pin down factions. More, there is division and confusion among members about the party's future direction.

The Green Party is only just coming of age; there is time for policies to be reworked and detailed. The difficulty it is likely to find – amply illustrated at Wolverhampton – is that the organisational structure it has adopted is too cumbersome and bureaucratic to give the party the sense of momentum it needs.

Most noticeable is the lack of a leader. It operates with a system of three co-chairs and six speakers. There is no one person, or small group, injecting a sense of direction. Speakers and co-chairs admit openly that they did not arrive with any plan for how the conference should progress.

The emphasis was on seeking to involve as many members as possible in policy development with responsibility for decisions devolved as far as possible. The conference frequently broke up into small-scale "workshops."

Voting sessions would then seek to sweep through numerous clauses set out in the weighty conference agenda without getting bogged down in procedural motions or points of order.

It is not that reform is not wanted. The party is likely to set up a "cabinet" of specialist speakers with the aim of creating a group of personalities that members, the media and voters can easily recognise.

There is also some pressure to move to a system in which conferences consist of delegates, rather than each of the 15,000 members having the right to attend.

The catch is that substantial reform – rather than just cosmetic changes – can only come through the existing, ungainly, procedural structure.

Nor is it fair to say that the party is short of ideas or potential electoral assets.

Both Ms Parkin and Mr Icke (well known through his job as a television sports presenter) perform well on television and in speeches. The party, however, puts great emphasis on not promoting personalities or concentrating power in too few hands.

Another danger – raised on several occasions throughout the conference – is that of infiltration by extremists from other ideologies. Members looked to the Labour Party and the accusations that militant extremists, by talking longer and packing meetings, have damaged the party's electoral chances.

It was perhaps paranoia born of inexperience. The joke doing the rounds in Wolverhampton was that the party had nothing to fear. Greens can out-talk anybody.

Alan Harper

Sara Parkin and Jonathon Porritt, director of Friends of the Earth, relax between conference speeches

Racal forms £1.2bn frigate bid group

By David White

RACAL, THE electronics group, has formed a consortium with three other European leaders in electronic warfare equipment to bid for a contract worth at least £1.2bn for the planned multinational NFR-90 frigates for Nato.

It said yesterday it had linked up with Thomson CSF of France, Elettronica of Italy and Telefunken System Technik of West Germany, the defence arm of AEG, being reorganised under the enlarged Daimler-Benz group. Inisel of Spain and a Canadian offshoot of MEL, the UK-based Philips defence subsidiary, were also due to join and the consortium was looking for a US partner.

The current members all dominate the naval electronic warfare market in their respective countries.

This will be the first time a fully integrated electronic warfare system has been procured as one contract package.

Britain is expected to announce soon whether it intends to proceed with the next stage of project definition work for the NFR-90.

Eight Nato countries are currently involved in a two-year definition phase for the frigate, which would be built in each country's own yards.

The total requirement for the eight countries is for 59 ships, with a total estimated value of between £10bn and £12bn.

BAe clinches US satellites deal

By Paul Betts, Aerospace Correspondent

BRITISH Aerospace has won the contract for the first commercial sale by a European company of communication satellites to the US with a £360m contract to supply two satellites to Orion Network Systems.

The two satellites will be manufactured by a BAe-led international team, including Matra of France, Fokker of the Netherlands, Marquardt and Eagle Picher of the US and Telesat of Canada, with BAe as the prime contractor.

● The General Electric Company has announced that its Marconi Radar Systems division has won a £9m contract to supply radar equipment to the Korean navy.

Nuclear law 'inadequate'

By David Green

INTERNATIONAL law is inadequate to deal with countries' claims against a neighbour after a large nuclear power accident, according to a report commissioned by Greenpeace, the environment group.

The report, by Mr Philippe Sands, a barrister and law lecturer at King's College, University of London, is to be submitted to the International Atomic Energy Authority at its meeting this week in Vienna.

Mr Sands says no treaties exist to govern claims between states for nuclear pollution, and countries are in effect spreading liability to others that are non-nuclear. In that way, the nuclear industry benefits from a substantial hidden subsidy, he claims.

Another report being presented by Greenpeace to the IAEA meeting says the risks of nuclear power are seriously underrated.

CFC use 'will be halved this year'

THE UK is expected to halve consumption of chlorofluorocarbons (CFCs) by the end of this year, Scottish environment minister Lord James Douglas-Hamilton said yesterday.

He said the cut in CFC gases, which can damage the ozone layer and contribute to the greenhouse effect, would be by manufacturers' voluntary agreement and would be 10 years ahead of the international schedule.

OFT finds unfair pricing by Scottish bus company

By Kevin Brown, Transport Correspondent

THE OFFICE of Fair Trading has ruled for the first time that predatory pricing was used against a bus company set up after the deregulation of the industry in 1986.

The ruling follows a series of investigations by the OFT into complaints by companies that they faced unfair competition.

The OFT investigated a complaint by Inverness Traction against Highland Scottish Omnibus, the established company in the Inverness area.

The OFT report concludes that Highland's response to competition was predatory and illegal.

The report says Highland operated its Inverness service at a loss after the establishment of Inverness Traction in 1988. There was a pattern of fare reductions, a substantial expansion of the route network, and Highland had the capacity to finance losses.

Sir Gordon Borrie, the Director General of Fair Trading, said the boundary between anti-competitive behaviour and a legitimate response to competition was a fine one.

Share dealing service to end

By David Lascelles, Banking Editor

CHELTENHAM & Gloucester building society is to end its cut-price share dealing service for small investors because of rising costs.

Mr Andrew Longhurst, C&G's managing director, said the number of deals processed had been rising but costs, particularly for regulatory compliance and settlement administration, had increased significantly. The service had been operating for 18 months.

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS-

Barbour Index, City of London Club, 19, Old Broad Street, E.C., 4.00
Cowan, de Groot, Portman Inter-Continental Hotel, 22, Portman Square, W., 12.00
Highgate & Job, Butchers Hall, 87, Bartholomew Close, E.C., 11.30
Hughes Food Grp., Cave Castle Hotel, South Cave, Brough, North Humberside, 10.30
Stoddard Sekers Int., Glenpatrick Road, Elderslie, Renfrewshire, 12.00
Victoria Carpet Hldgs., Green Street, Kidderminster, 3.00

BOARD MEETINGS-

Finals:
Cook (D.C.)
Cornwell Parker
FII Grp.
GT Japan
High Point
Intereurope Technology
Lloyd Thompson Grp.
MAI
Platon Int.

Interims:
Brent Chemicals
Capita Grp.
Cussins Property
Finlay Packaging
Jove Inv. Tst.
London & Edinburgh
Memec
Metalrax
Miller (Stanley)
Plaxton Grp.
Rockfort
Telfos

DIVIDEND & INTEREST PAYMENTS-

Aegon Wrnts. 9pc Nts. 1992 4½pc.
Anglia Bldg. Society Flg. Rate Nts. 1996 £182.91
Assoc. Brit. Foods 5½pc Un. Ln. 1987/2002 2¾pc.
Do. 7½pc Un. Ln. 1987/2002 3¾pc.
Assoc. News 8¼pc Gtd. Exch. Bds. 2003 £58.44
Centrovincial Estates 6¾pc Un. Ln. 1988/93 3⅜pc.
Chapman Inds. 8½pc 1st. Mtg. Db. 1993/98 4¼pc.
Gartmore Info. & Fin. Tst. 0.428p
Hanson 10pc Cv. Un. Ln. 2007/12
Hercules 56cts.
Kershaw (A.) 8p
Do. B Pf. 1.96875p
Lonrho 9pc 2nd. Mtg. Db. 1987/92 4½pc.
Nash Inds. 1.4p
National & Provincial Bldg. Society Flg. Rate Nts. 1996 £183.49
New Zealand 11½pc 2014 5¾pc.
Rank Org. 9.6p
Renold 8pc 1st. Db. 1991/96 4pc.
Treasury 8pc 2009 4pc

TOMORROW

COMPANY MEETINGS-

Scottish, English & European Textiles, Caledonian Hotel, Edinburgh, 10.00

BOARD MEETINGS-

Finals:
Bryant
Lincat Grp.
Magnetic Materials
Trafford Park Estates

Interims:
Abbey National
Allied Partnership
BSG Int.
Blockleys
Bluebird Toys
Bostrom
Brixton Estate
Clifford Foods
Dencora
Dolphin Packaging
Hawthorn Leslie
Ibstock Johnsen
Imtec
Kitty Little
London & Metropolitan
Needler
Neill (James)
PCT
Proudfoot (Alexander)

DIVIDEND & INTEREST PAYMENTS-

Exchequer 12¼pc 1999 6⅛pc.
Royal Dutch Petroleum (Reg) Fl.3.25
Do (Br) Fl.3.25
Soundtracs 0.85p
Treasury 13½pc 2004/08 6¾pc.
Vaux Grp. 9.875pc Db. 2015 4.9375pc.
Do. 10.75pc Db. 2019 5.711pc.
Do. 11¾pc Db. 2010 5⅞pc.

WEDNESDAY SEPTEMBER 27

COMPANY MEETINGS-

Northumbrian Fine Foods, Holiday Inn, Great North Road, Seaton Burn, Newcastle upon Tyne, 10.00
Oceana Cons., Park House, 16, Finsbury Circus, E.C., 3.00

BOARD MEETINGS-

Finals:
Ash & Lacy
Bailey (Ben)
Cotroy
Community Hospitals
Duncan (Walter) & Goodricke
Eleco
Gent (S.R.)
Harvey & Thompson
Renishaw

Interims:
Acorn Computer
Addison Consultancy
Ashley (Laura)
Bank of Scotland
Bank of Wales
Boddington Grp.
British & Commonwealth Hldgs.
Christies Int.
Dagenham Motors
Delaney Grp.
Evered
Hogg Robinson & Gardner
Martin Currie Pacific Tst.
Perth Grp.
Sintrom
Tesco
Wolstenholme Rink
World of Leather

DIVIDEND & INTEREST PAYMENTS-

Fleming Enterprise Inv. Tst. 1.9p
Gold Fields of South Africa 130cts.
Gold Fields Property 18cts.
Investors Capital Tst. 4.3p
Mersey Docks & Harbour 3¼pc Rd. Db. 1979/99 1⅝pc.
Do. 3½pc Rd. Db. 1979/89 1¾pc.
Do. 6¼pc Rd. Db. 1986/89 3⅛pc.
New Wits 20cts.
Oriflame Int. (Reg UK) 6.5p
Do. (Reg Lux) 6.5p
Do. (Br) 6.5p
Scotland Int. Finance Gtd. Flg. Rate Nts. 1992 $262.71
Scottish Life Assurance 7½pc Un. Ln. 1997/2002 3.5625pc.
Vogelstruisbult Metal Hldgs. 28cts.

THURSDAY SEPTEMBER 28

COMPANY MEETINGS-

Banks (Sidney C.), Sun Hotel, Hitchin, Herts., 12.30
Douglas (Robert M.), Shenstone House, 395, George Road, Erdington, Birmingham, 12.00
Electric & General Inv., 3, Finsbury Avenue, E.C., 12.30
Ellis & Everard, Grand Hotel, Leicester, 12.00
Greycoat, Lecconfield House, Curzon Street, W., 12.00
Harland Simon Grp., Post House Hotel, 500, Saxon Gate West, Milton Keynes, 12.00
Jarvis (J.), 67, Great Eastern Street, E.C., 11.00
Mid Wynd Int. Inv. Tst., 10, Glenfinlas Street, Edinburgh, 11.00
Textured Jersey, Engineers Way, Wembley, Middx., 12.00

BOARD MEETINGS-

Finals:
Close Bros.
Frogmore Estates
IFICO
Parkdale Grp.
Ramar Textiles
Thorpe (F.W.)
Throgmorton Dual Tst.

Interims:
CMB Packaging
Capital & Regional Props.
Central ITV
Childrens Medical Charity Inv. Tst.
Clarkson (Horace)
Epicure
F & C Pacific Tst.
Floyd Energy
Foseco
Gesel
Ingham (George)
Jacks (Wm.)
MB Grp.
Rathbone Bros.
Redland
Richards Grp.
Sykes-Pickavant
TV-AM
Time Products
Tyndall Hldgs.
Utd. Newspapers
Vickers
Whatman Reeve Angel

DIVIDEND & INTEREST PAYMENTS-

Bank fur Arbeit und Wirtschaft Sub. Flg. Rate Nts. 2000 $882.22
Bradstock Grp. 3p
Brierley Invs. 5.5cts.
C.S.C Inv. Tst. 4.2p
Canadian Imperial Bank of Commerce Flg. Rate Dep. Nts. 2006 $487.39
Dominion Int. 3p
EAB Finance Gtd. Flg. Rate Nts. 1990 $[illegible]
Equity & Law Int. Flg. Rd. Pf. (UK Equity) 3.8p
Do (UK Gilt & Fixed Int.) 3.8p
Do. (Managed Currency) 2.74p
Do. (DM Deposit) DM0.086
Do. (Dollar Deposit) 3.3cts.
Do. (Sterling Deposit) 5.8p
Do. (Yen Deposit) Y3
GW Overseas Finance Gtd. Flg. Rate Nts. 1994 $[illegible].42
Halifax Bldg. Society Flg. Rate Ln. Nts. 1996 (Ser.B) £391.26
Kemira Oy Flg. Rate Nts. 1996 $[illegible].42
Murray Smaller Markets Tst. 2p
United Kingdom Flg. Rate Nts. 1996 $[illegible].19

FRIDAY SEPTEMBER 29

COMPANY MEETINGS-

BBB Design, 150, Wood Street, E.C., 12.00
BTS Grp., 344, Kensington High Street, W., 11.00
Beales (John), Boulevard Works, Radford Boulevard, Nottingham, 12.00
British Building & Engineering Appliances, University Arms Hotel, Cambridge, 12.00
Dyson (J & J), Hallam Tower Post House Hotel, Sheffield, 12.00
Leigh Interests, Chamber of Commerce, 75, Harborne Road, Edgbaston, Birmingham, 12.00
Menzies (John), Merchants Hall, 22, Hanover Street, Edinburgh, 12.30
Mountleigh Grp., Savoy Hotel, Strand, W.C., 12.30
Property Security Inv. Tst., Butchers Hall, 87, Bartholomew Close, E.C., 12.00
Smith (David S.), St. James Court Hotel, Buckingham Gate, S.W., 10.00

BOARD MEETINGS-

Finals:
Adwest
Bristol Channel Ship Repairers
Courtney Pope
Goodwin
Prudential-Bache Cap. Fd.

Interims:
BLP Grp.
Bermuda Int. Fd.
Citygrove
Coates Brothers
Conrad Continental
Scotts Restaurants
Sherwood Grp.
Trusthouse Forte

DIVIDEND & INTEREST PAYMENTS-

Alex & Alex 25cts.
Do. Class C 15.1p
American Cyanamid 31.75cts.
BTS Grp. 0.5p
Bank of Montreal Flg. Rate Dep. Nts. 1994 £179.2
Beales (John) 6.75p
Charlwood Alliance 7½pc Un. Ln. 3¾pc.
Cons Gold Fields 6¾pc Cv. Sub. Bds. 2002 3⅜pc.
Cont. Illinois Overseas Fin. Gtd. Flg. Rate Sub. Nts. 1994 $341.72
Crystalate Hldgs. 8¾pc Cv. Un. Ln. 2005 [illegible]

[illegible]

Do. 5pc 3rd. Cm. Pf. [illegible]
Oceana Cons. 1.25p
Public Service Enterprise 51cts.
RCO Hldgs. 2.7p
Radiem 0.75p
Rights & Issues Inv. Tst. 1.6p
River & Mercantile Geared Cap. & Inc. Tst. 1.3p
Saatchi & Saatchi 7.4p
Scandinavian Finance Sbg. Flg. Rate Nts. 1998 £76.15
Securicor Grp. 0.44p
Do. A (N/Vtg.) 0.44p
Do. 8½pc Cm. Ptg. Pf. 12.808p
Security Services 0.[illegible]p
Sheldon Jones 3.3p
Southampton, IOW & IOW Steam Packet 3p
Staveley Inds. 5¼pc Cm. Pf. 1.8375p
Do. 7½pc Un. Ln. 1986/93 3¾pc.
Do. 7½pc Un. Ln. (1988/91) 3¾pc.
Sutherland Hldgs. 1.15p
TR Trustees 1.6p
Tate & Lyle 11.[illegible]pc Nts. 1993 6.[illegible]pc.
Temple Bar Inv. Tst. 8.7p
Tendring Hundred Water 4½pc Db. Wd. 2¼pc.
Tokyo Elect. Power 6⅞pc Nts. 1995 4⅞pc.
Tor Inv. Tst. 4¼pc Cm. Pf. 1.6625p
Do. 6pc Cm. Pf. 2.7p
Trafalgar House 8pc Un. Ln. 1994/99 4pc.
Unitiare 3.5[illegible]p
Vantage Securities 0.6p
Vickers Pfd. 5pc (Non-Cm) 1.75p
Do. 5pc Pf. (Non-Cm) 1.75p
Do. 5pc Cm. (Tax Free to 30p) Pf. 2.5p
Warnford Invs. 15p
Wells Fargo Flg. Rate Sub. Nts. 1996 $72.[illegible]
Do. Flg. Rate Sub. Cap. Nts. 1997 $240.14
Do. Flg. Rate Sub. Nts. 2000 $74.91
Westpac Banking Perp. Cap. Flg. Rate Nts. $[illegible]
Woodchester Invs. 1p
Yorkshire Int. Fin. Gtd. Flg. Rate Nts. 1994 £179.79

SATURDAY SEPTEMBER 30

DIVIDEND & INTEREST PAYMENTS-

Aaronson Bros 4.2[illegible]pc Cm. Rd. Pf. 2.1[illegible]pc.
Do. 5.25pc Cm. Pf. 2.625p
Aerlinte Eireann Teoranta 10½pc Stg. Db. 1991/96 5¼pc.
Alexon Cv. Cm. Rd. Pf. 3.12[illegible]p
Allied London Props. 8½pc Cv. Un. Ln. 1998 4¼pc
Allnatt London Props. 8¼pc 1st. Mtg. Db. 1998/2001 4⅛pc.
Anglo United 1p
Ashley Grp. Cm. Rd. Cv. Pf. 2.[illegible]p
Assoc. Brit. Eng. 4.9pc Cm. Pf. 2.45p
Do. 8pc Cm. Cv. Rd. Pf. 4p
Assoc. Paper 5.25pc Cm. Pf. 1.[illegible]p
Atlantic Metropolitan (UK) 12pc Cv. Un. Ln. 1991/97 6pc.
Auden Props. 11pc Gtd. Db. 2021 Ser.A 5½pc.
Do. 11pc Gtd. Db. 2021 5½pc.
Automotive Prods. 3.5pc Cm. Pf. 1.75p
Do. 4.55pc Cm. 2nd Pf. 2.275p
Do. 8pc Cm. Pf. 4.5p
BAT Invs. 10pc Un. Ln. 1990/95 5pc.
Do. 10½pc Un. Ln. 1990/95 5¼pc.

[illegible]

Trade fairs and exhibitions: UK

September 25-28
International Police Exhibition & Conference (01-446 8211)
Barbican, London

September 26-27
Independent Power Generation Conference and Exhibition - INPOWER (0737 768611)
Heathrow Park Hotel

September 26-28
Datacom 89 (01 404 4844)
Business Design Centre, London

September 27-Oct 1
Personal Computer Show (01-486 1951)
Earls Court, London

September 29-October 1
National Franchise Exhibition (01-727 1929)
NEC, Birmingham

October 3-5
Transport and Distribution Services Show and Conference (01-868 4466)
Wembley Exhibition and Conference Centre

October 4-6
Desktop Publishing Exhibition (0625 879970)
London Arena

October 10-12
Insurance Industry Exhibition and Conference - INSUREX (01-446 8211)
Barbican, London

October 18-19
Hotel, Catering and Leisure Industry Technology Exhibition - HOTECH (01-978 2050)
Kensington Exhibition Centre

October 19-20
Law Society National Conference and Exhibition (0423 530588)
Harrogate Exhibition Centre

October 24-26
Omnec: The fibre optics users exhibition and conference (0223 242946)
Barbican Exhibition Hall, London

Overseas exhibitions

Sept 25-Oct 1
International Technical Fair (01-836 5219)
Plovdiv

Oct 2-6
International Robotics, CAD/CAM, Automation Engineering Exhibition - PRODUCTIQUE (01-225 5566)
Paris

October 3-7
International Technical Fair - Packaging and Material Handling - PACTEC (01-486 1951)
Helsinki

October 7-11
International Hotel, Restaurant, Catering & Foodstuff Industry Trade Fair (01-977 3474)
Vienna

October 9-14
International Fair for Instrumentation and Automation - INTERKAMA (01-734 0166)
Dusseldorf

October 10-14
International Anti-Pollution, Environmental and Safety Technology Exhibition - IFEST (01-639 7265)
Ghent

October 23-27
International Electronics, Computers, Materials and Semi-Conductors Exhibition - IECM (01236 2399)
Beijing

Business and management conferences

September 25-26
IBC Financial Focus: The changing pattern of business (01-637 4383)
Regent Crest Hotel, London

September 25
International Business Communications: UK Securities Settlement and the implications of TAURUS
Inn on the Park, London

September 26
The Economist: People mean profits in the '90s - why and how the human side of business is a critical source of competitive advantage (01-839 7000)
Hyde Park Hotel, London

September 26
International Business Communications: International securities settlement (01-236 4080)
Inn on the Park, London

September 27
CBI Conferences: Production efficiency (01-379 7400)
Centre Point, London

September 28-29
Acquisitions Monthly (01-823 8740)
London Hilton Hotel

September 28
CBI Conferences: Facing up to change - annual pensions conference (01-379 7400)
Centre Point, London

September 29
Institute of Directors: Corporate venturing (01-839 1233)
London

October 1-3
OTR Group: The impact of information technology on managing organisational change (01-402 3574)
Windsor

October 2
Ambrosetti Group and The Economist: Making perestroika work - the challenges to East and West (434 9091)
Blackfriars, London

October 9-10
Financial Times Conferences: Europe and the Nordic countries (01-925 2323)
Stockholm

October 11-14
Strategic Management Society: Strategies for innovation (US 317 494 4386)
San Francisco

October 11-12
Financial Times Conferences: World mobile communications in the 90s (01-925 2323)
Hotel Inter-Continental, London

October 24-25
International Business Communications: Third annual conference on the management and marketing of unit trusts (637 4383)
Queen Elizabeth II Conference Centre, London

October 31-November 2
Financial Times City Seminar (01-925 2323)

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

CONSTRUCTION CONTRACTS

Aerospace research centre

British Aerospace (Dynamics) has awarded CONDER PROJECTS a £17.35m design and build contract for two three-storey buildings for a research and development centre at Stevenage. Conder will use its Queen's Award winning "dry envelope" form of construction, and a fast track programme to complete the 160,000 sq ft project by November 1990.

Installing services at new prison

Main contractor Sir Robert McAlpine & Sons has awarded a £7.2m contract for mechanical and electrical work at Holme House Farm Prison, Stockton, Cleveland, to REDPATH ENGINEERING SERVICES, part of Trafalgar House. Work starts in November for completion in mid-1991. Work will include: 10 gas-fired boiler plants; gas distribution systems; mechanical ventilation systems; hot water storage and distribution; automatic controls for heating and ventilation. Electrical work includes an internal telephone system, fire and general alarms, switchgear, and lighting (domestic and security).

£50m prison to be built at Banstead

ALFRED McALPINE has been awarded a £50m contract by the PSA for the construction of Highdown Prison at Banstead, Surrey. Work starts next month for completion in January 1992. This will be a category B (non-dispersal) prison, contained within a concrete perimeter wall. Work includes construction of an entry building with surveillance and emergency controls, four house blocks, medical building and workshop with six vocational/construction industry training areas, together with staff social centre and visitors centre.

★★★

A £4m business centre covering 21,000 sq metres is being built in Nottingham by HALL & TAWSE for London developer, Priest Marians; and a 22-week two-phase development will provide a £1.25m factory and offices for Birnham Products at New Eastwood.

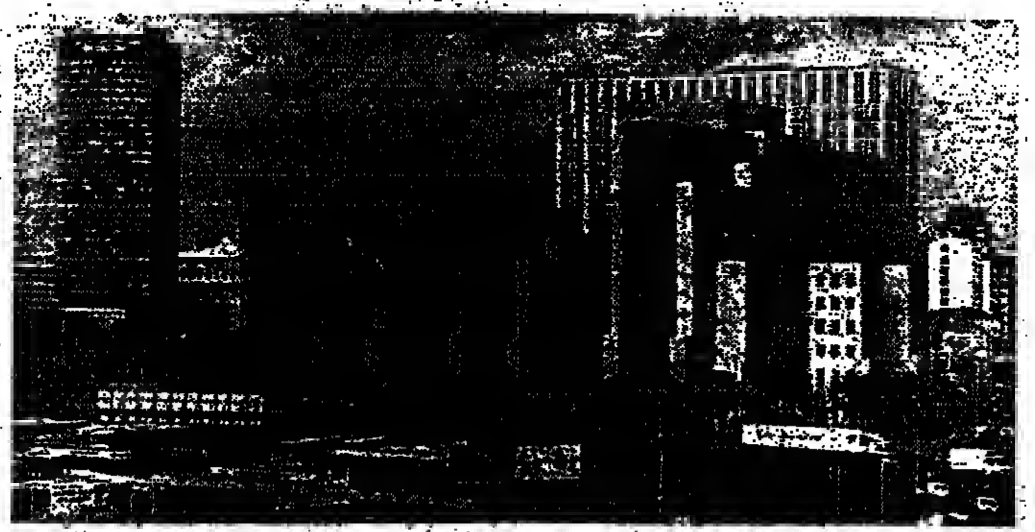
★★★

BRIMS & CO, Newcastle upon Tyne, has been awarded a £3.6m contract to build a 6,000 sq metres shopping centre at Blyth for Aureole Investments in conjunction with Hunting Gate Developments. Completion is scheduled for autumn 1990. The company also has a £2m order from Middlesbrough Borough Council for improvements to 76 houses.

★★★

R.M. DOUGLAS has won the first building contract awarded by PowerGen, one of the two national bodies which will supersede the CEGB following privatisation of the electricity supply industry. The contract is for construction of a £3.5m technology centre at Ratcliffe power station, Nottinghamshire. It will comprise a three-storey laboratory and office block; a coal sample preparation unit and associated general works.

£130m Thames-side offices



An impression of Vauxhall Cross, London, SW8, a 450,000 sq ft office development to be built fronting the Thames opposite the Tate Gallery. It has been pre-sold by Regalian Properties for £130m, the largest commercial pre-sale in the UK. LAING MANAGEMENT CONTRACTING has won the £86m contract awarded by Regalian for its construction. Work starts in April 1990 for completion in autumn 1992. The nine-storey building will be clad in honey-coloured pre-cast concrete panels and sea-green glass curtain-walling, and will have two external and two internal atrium spaces with stepped glazed roofs.

£32m orders for Osborne

GEOFFREY OSBORNE has won orders worth over £32m. The largest is a £19m contract to build an eight-storey office block at College Road, Harrow, for Lembina Properties. Completion is scheduled for spring 1992. At Christchurch the company is building and fitting-out a superstore for J. Sainsbury, worth £8.7m. Work starts at the end of this month for completion in August 1990. Osborne has been awarded a £7m contract for substructure work by Taylow Woodrow Management Contracting at The Peacocks, Woking, a town-centre retail and leisure complex. This £120m project is being undertaken by London and Edinburgh Trust.

Isis active in UK and US

ISIS CONSTRUCTION has won contracts with a total value in excess of £12m. In addition, the James G. Davis Construction Corporation, the group's US construction company, has added projects valued over £11.9m ($19.35m). Among the orders are a £3.8m luxury apartment development at Truro, Cornwall; a multi-purpose leisure centre valued at £2.5m for Dibhouse at Newquay; and a £2.2m project to build light industrial units for Allied Investments and Property Holdings at Ware, Hertfordshire. The Maryland-based US subsidiary has won building contracts in Washington DC and Virginia and is active in the tenant fit-out field.

Office complex in Macclesfield

CRUDEN CONSTRUCTION has been awarded building contracts together worth over £10m. Projects include a £3.7m five-storey office complex for ICI at Alderley Park, Macclesfield; a £1.2m hotel block in Liverpool, for the French-owed company Campanile UK, and a £1.7m five-storey office in Chorley, Lancashire, for Latham Crossley and Davis. Anchor Housing Association's "design-build" 34-bed nursing home in Wallasey, Merseyside, is worth £700,000. The 48 unit "Waterside" redevelopment scheme, Blackburn, and the "Highfields" refurbishment, Warrington, are for private housing subsidiary, Hillcrest Homes, and are together worth more than £2.6m.

Bovis builds hotel in Algarve

A management contract has been awarded to BOVIS INTERNATIONAL, a P&O company, to build a five-star hotel, with an estimated construction value of £10.5m, for Trusthouse Forte at Quinta do Lago, near Faro on Portugal's Algarve coast.

Work starts this month on the 22-month contract, which involves construction of a 190,000 sq ft reinforced concrete frame building, which will provide 154 bedrooms and 11 suites on five levels, together with reception hall, restaurants, bars, swimming pool, gymnasium, offices and service areas.

Adjoining the hotel is a golf clubhouse on two levels, to be equipped with a restaurant and terrace on the ground floor, with reception, changing and shower rooms, and garage at lower ground level.

To be called the São Lourenço, the hotel will have views of the coastline, with an adjacent 18-hole championship golf course, and a lake which forms part of the Ria Formosa wild life sanctuary.

★★★

WILLIAM DAVIS, Loughborough, has won orders totalling over £8m. The contracts include a mixture of new-build homes for various local authorities, retirement developments for housing associations, public houses, and refurbishment and modernisation projects. Largest is a £3.5m mixed housing scheme for Kettering Borough Council in partnership with Bridge Housing Development Society.

★★★

Contracts worth £3.95m won by EVE CONSTRUCTION include £1.8m for a reception and allocation building, and alterations to the East Wing at Wandsworth Prison, and a control building and civil works worth £1.4m at CEGB's West Ham power station.

★★★

The overall size of the site is the main problem which SULZER (UK) has to overcome in installing mechanical services in a new engine production building for Ford Motor Company at Bridgend in Glamorgan. The £3.5m contract was awarded by the main contractor, Balfour Beatty Building, which is constructing the 590,000 sq ft factory. The installation includes 45 air-heating units, 132 extract units, two boilers of 10,000 and 3,000 kW, and a cooling tower.

★★★

Another contract has been commenced by PENTAGON DESIGN & CONSTRUCTION for Imry Merchant Developers on the "Turnpike 327" business park at Chandlers Ford. The £1.5m building, to be known as "Tollgate House", is adjacent to the entrance of the park. Construction will incorporate traditional brickwork, air-conditioning and pitched roofs. Completion is scheduled for April 1990. Pentagon is nearing completion of a 55,000 sq ft business village on the same site for Imry, providing 21 units varying from 1,000 - 4,000 sq ft of freehold and leasehold business accommodation.

CONTRACTS & TENDERS

COMPANY NOTICES

Car components

Easing off on the accelerator

William Dawkins explains why Valeo is now taking stock of its acquisition strategy

The grey-carpeted office of Noel Goutard, chairman of Valeo, Europe's second largest maker of car spare parts, is sparsely furnished in steel and glass, *giving an impression of* Japanese simplicity.

It is in an unassuming building, above a Renault garage in central Paris; it is not what you would expect to be the headquarters of the scourge of the French car components industry, the hub of an empire that employs 34,000 people and *expects to turn over at least* Fr19bn (£1.8bn) this year.

The most interesting objects in the block are locked away from prying eyes – a bundle of reports on the management weaknesses of all of Valeo's *smaller competitors*, earmarking just which of them is ripe for takeover.

It has just concluded the seventh in a veritable orgy of acquisitions with its Fr1.5bn takeover of Blackstone, the US *maker of engine cooling and* climate control gear for cars and trucks, Valeo's largest successful takeover to date. Under Goutard's management, Valeo has nearly doubled its turnover – on an annualised basis – in two years. It has swung round from a Fr306m loss in 1986 to Fr817m net in 1988 and is expected by Paris analysts to turn *in at least Fr1.1bn* this year. But that was before strikes broke out at Peugeot, one of its biggest customers, in early September – the impact of which it is too early to quantify.

Valeo's experiences provide a prime example of the management panache that has pushed France into the forefront of the world takeovers scene in the run-up to the 1992 creation of a single European market. The group has also, with the French Government's encouragement, been the prime mover behind a widespread restructuring of a formerly fragmented French car components industry.

The Blackstone deal has brought Valeo to an important watershed in its development; Goutard believes it would be unwise to continue acquiring competitors at such speed. "Now we have reached a size where we must consolidate. Our rapid series of acquisitions has drawn heavily on our management resources. In general *we didn't find the management* we needed in place in our acquisitions, so now our objective must be to enrich that management," says Goutard.

A former director of Schlumberger, the oilfield service group, Goutard was head-

Noel Goutard: aiming for European market leadership in a range of car componentry niches

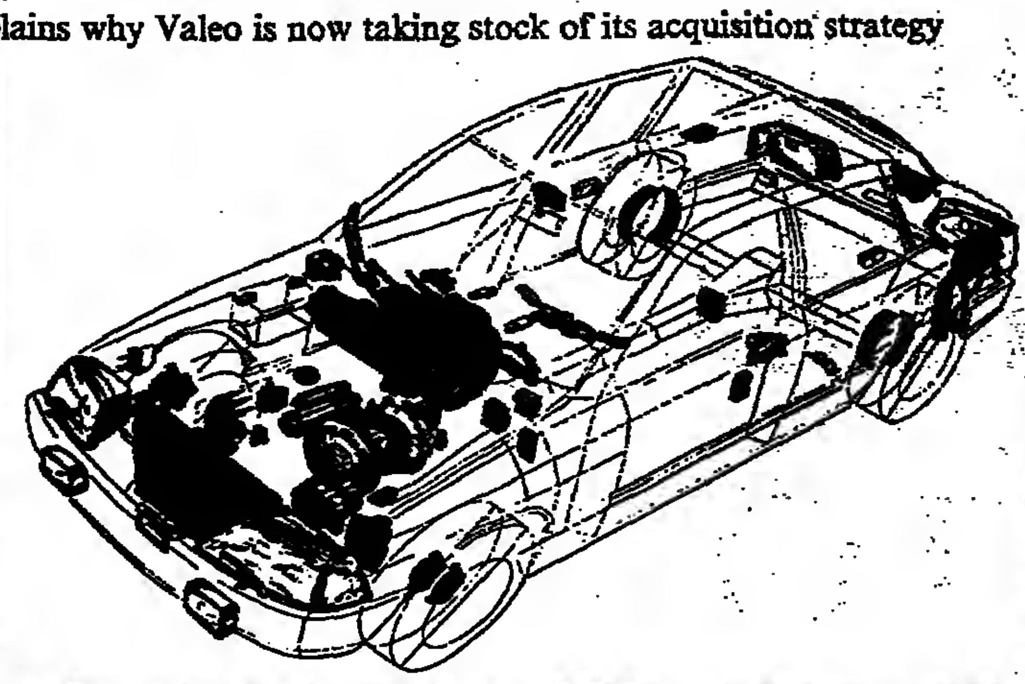
hunted in 1987 from Thomson, the French electronics group, by Carlo de Benedetti, the Italian entrepreneur whose holding company, Cerus, had just gained management control of Valeo by acquiring a large minority stake. Then it was a listless, over-diversified holding group, with 10 per cent of *its sales* in completely unrelated activities like cement and metallurgy.

Now it is Europe'e second largest producer of car components after the West German giant, Bosch, and fully focused *on the automobile industry*.

During this hectic time, Valeo has, among other deals, hought Neimann, then France's third largest car component group, formed joint ventures with US, South Korean and Japanese parts suppliers, bought Bongotti, the Brazilian producer of car heaters, and acquired Delanair, the UK maker of air conditioning systems.

Not all of Valeo's targets have fallen, however. Last October, Goutard was forced to call off a hostile Fr2.4bn takeover bid for Epéda-Bertrand *Faure*, a diversified French car seat company. He was thwarted by a higher counter-bid from a consortium led by Peugeot and the Michelin tyre group, influential Valeo customers who account for roughly *half its sales* and who had been persuaded by Epéda-Bertrand Faure that Valeo would get too powerful if it won. "The customer is always right," Goutard remarked ruefully at the time.

Yet the costs of trying to



beat Bosch on R&D while at the same time buying market leadership across Valeo's product range have been considerable. Yves Blanc, Valeo's finance director, hired by Goutard from Pechiney, the French aluminium and metals group, expects net debt *to rise to* roughly 50 per cent of shareholders' funds by the end of this year, the highest under the new management.

Most of this is due to the cost of funding the Blackstone deal, which will more than double net debt to Fr3bn. This kind of demand has already forced Valeo to keep a very tight dividend policy, so that the annual yield on its shares is a mere 1.3 per cent.

So far, the stock market has liked what Goutard is doing. Since the turn of the year, Valeo's share price has risen *by 50 per cent, twice the* market average.

"Growth by acquisition is not an easy road," Goutard readily admits. The main challenges have been to maintain a coherent strategy while *growing at such speed*, and to avoid picking up future problem makers among the string of acquisitions in the US, Britain and Brazil.

"We all run the risk of finding skeletons in the cupboard, though we *only* buy in sectors we already know well. We have observed most of the companies we buy for a long time as competitors," maintains Goutard.

Valeo uses banks and consultants to carry out the usual "due diligence" when *mounting takeovers, but also keeps a* central unit of half a dozen executives – the authors of those secret studies - who run analyses and search for potential candidates. The unit had already run two studies on

> **"One reason for acquisitions is to lock out the Japanese"**

Blackstone in earlier years, so Valeo was able to make up its mind in hours when it received a fax last July from the US-based Mark IV Industries, Blackstone's former owner, announcing that the company was for sale by open bid.

As far as strategy goes, the central purpose is simple: to gain and hold European market leadership in a range of car componentry niches within Valeo's technological grasp. Clutches, engine cooling, climate control gear and lighting are among the six systems *where Valeo is the largest* European supplier.

While acquisition has been the main tactic, Valeo executives are extremely sensitive to charges that their sales growth has been entirely takeover driven. *High-performance* headlights for the Peugeot 605 and Citroen XM and heating units for the new BMW 5 series are some of the results of spending 9 per cent of turnover on R&D.

It is a high research budget, equivalent in cash terms to only half that of Bosch, which turns over three times more than Valeo. *But it is* seen as essential to answering the demands of the few enormously powerful customers that dominate the industry.

Even *so*, Valeo's market-driven approach differs revealingly from that of Bosch, where the more conservative management style and greater emphasis on the pursuit of new technology has left it more specialised, with a renowned dominance in fuel injection.

For Valeo, the advantages of picking up successive market niches in car equipment have been to allow it to make the best use of the existing customer base and to achieve economies of scale in distribution.

Valeo's most extensive ranges

Product	Position in Europe
Clutches	1
Clutch facings	1
Engine cooling	1
Lighting	1
Security systems and switchgear	1
Alternators and starters	2
Electronics	-
Wiping systems	-
Brake linings	-

It has also helped it to respond to car producers' growing demands to be supplied with *full component* systems, rather than individual parts which are then bolted together into systems at the car plant.

"Car producers want to deal with the smallest possible range of suppliers these days and they need to build up very close relationships with them. Clearly, being able to offer a wider range of products helps that process," says Blanc.

Equally, Valeo has used acquisitions to fight off competition in key products, especially from Japan. Blanc cites the Blackstone deal as a prime *example. "The main aim of the* acquisition was to reinforce our position in air conditioning. But it was also a *defensive* move. If we hadn't taken it over, the Japanese would have been happy to do so. Moreover, a price war with Blackstone had been happening and we needed the takeover to bring peace to the market," he explains.

For most of the time, the management of Valeo takes an adversarial view of Japan; it is imbued with a determination not to let it dominate the European component industry in the way that it has done in the US. "One reason for the acquisitions is to lock out the Japanese," admits Goutard.

But with exemplary French pragmatism, he is equally happy to form joint ventures where necessary. Only *last* June, Valeo created a joint company in Spain with Nippondenso, the world's second largest car component producer after Bosch, to produce parts for electronic ignitions for Ford in Europe.

Both Valeo and Nippondenso had been asked for this part by their existing customers, *respectively*, PSA, the French car group which owns Peugeot and Citroen, and Ford, the Japanese company's client. "We concluded it would be more intelligent to do it together, rather than compete. That way we both get better volumes and economies of scale," explains Goutard. "We know they are in Europe to dominate, but we try to ensure equality in our agreements," he adds.

Goutard's energy and charisma can take part of the credit for the change of culture from the loss-making old Valeo to the dynamic new one. It is also thanks to an old-fashioned management reshuffle, whereby Goutard replaced roughly half of the *former* executive board, introducing newcomers such as Yves Blanc.

Most important – at least in Blanc's mind – was the *devolution of power to a far lower* level than before. Before Cerus took control, Valeo was run as ten large profit centres, each answerable to the board.

These have been replaced by 20 branches, which have responsibility for 80 small divisions, each of which is a profit centre able to pass takeover or investment projects back through *the branches for* board approval. "For us, the vital centres of the group are in the divisions. We see the branch directors, above them, as *chefs d'orchestre*," says Goutard.

As a revealing bellwether of the automotive industry, Valeo has been a prime beneficiary of the buoyancy of general European demand for cars. Equally, cynics might fear it could be a prime casualty of *the* downturn in the car market that industry forecasters have for some time believed to be imminent.

Certainly, the group will not double its sales again in a hurry. But Goutard predicts that European car demand will grow at 1 to 2 per cent annually in the next five years, during which the component supplies market can expect a higher rate of sales growth – of 5 to 6 per cent – thanks to the growing technological sophistication of basic car models. This is driven partly by the European Community's recent move to tough US-style exhaust pollution *limits*, but also by growing consumer demand for safety features like anti-lock braking. "We do not live in dream land," says Goutard. "But I still think our sales will be passing Fr25bn by 1990."

Management abstracts

Supervisory training. *E Donnelly in Training Officer (UK), Oct 88 (3 pages).*

Presents a performance-centred and problem-related model for supervisor training which gets away from traditional, classroom-based training, concentrates on job-centred reality, and is based on peer discussion and self-help through the medium of critical analysis.

Outlines prerequisites for success, and details the stages of the model from initial briefing to appraisal of results.

Whistle-blowing: encourage it. *J P Near in Business Horizons (US), Jan/Feb (5 pages)*

Presents the case for the encouragement of whistle-blowing, defined as action taken by persons who find their sense of morality outraged by wrong-doing in their organisations.

Points to the conflicting loyalties involved and to the risks of retribution from managers whose practices and/or decisions are criticised; contrasts this with the benefits to the organisation (eg inexpensive feedback about mistakes) and/or society at large.

Concludes that on balance there is a good case for stimulating whistle-blowing, which can be best be done by reducing the risk of retribution, eg by providing anonymous communication channels or appointing ombudspersons.

The separation of ownership and responsibility. *D G Margotta in Business Horizons (US), Jan/Feb 89 (4 pages)*

Shows how, over the last century, corporations' owners combined ownership, control and responsibility and then non-owners took over both control and responsibility, while ownership remained with/passed to the shareholders, some of whom were professional investment managers acting on behalf of beneficial owners.

Now, control is shifting to these professional investment managers while the responsibility remains with the management; wonders whether this is a beneficial development.

If one was missing we'd shriek.

Most people recoil at the sight of a colony of marine worms.

Here at BP we hold the 'lowest form of life' in somewhat higher regard.

Ever since our ecologists helped to unearth the fact that these friendless creatures are extremely sensitive. Particularly to any sudden chemical changes in sea water, their natural environment.

Apparently even miniscule quantities of pollutants can decimate entire worm colonies.

Of course we can't account for every single worm in the vicinity of our oil platforms.

But we can monitor their populations thereby detecting the first signs of contamination in time to prevent damage to the environment.

A prime example of the early bird catching the worm.

Protecting the environment is one of the things BP is doing today for all our tomorrows.

BP

For all our tomorrows.

APPOINTMENTS

Nationwide resource director

Dr Brian Davis *(above)* has been appointed resource director of NATIONWIDE ANGLIA BUILDING SOCIETY. He will be responsible for all technology operations and the upkeep of the society's branch network - said to be the biggest in the UK - and other buildings, including the administrative centre in Swindon. He was general manager.

■ Mr Royan Ellis has been appointed managing director of WESTPAC BANKING CORPORATION (JERSEY). He was joint managing director of Midland Bank Trust Corporation in Jersey.

■ POWELL DUFFRYN has appointed Mr C. Noel Davies as a non-executive director from October 1. He is chief executive of VSEL Consortium.

■ LLOYDS BANK INTERNATIONAL PRIVATE BANKING head office, Geneva, has appointed Mr René Keller (Swiss) as assistant general manager, and Mr Michael Fornara (British) and Mr Hans Jenni (Swiss) as principal managers.

■ Mr John King has been appointed vice president finance at EMI CLASSICS. He was European financial controller with L'Oréal, Paris.

■ OWEN & ROBINSON, a gold jewellery retail chain, has appointed Mr Seymour Gordon as an executive director. Mr Ronald Hunnisett, Mr Richard Hunnisett and Mr Raymond A. Wells have resigned from the board.

■ Former chairman and chief executive of Sarasin International Securities, Mr Hans Rieppel, has been appointed joint managing director of LONDON & CONTINENTAL BANKERS (LCB). Formerly a consortium bank, LCB is now 85 per cent owned by the DG Bank, one of the biggest German co-operatives. LCB serves as its international banking arm. Mr Rieppel will be responsible for marketable securities and capital markets business, as well as sharing overall management.

■ NATIONAL TELECOMMUNICATIONS has appointed Mr Bruce Bower, a management consultant, as group finance director. He remains a partner in David Sheppard & Associates.

■ Mr Howard Lee, managing director of CARTER VALIN POLLEN, becomes chief executive from November 1.

■ Mr Allan Bridgewater, group chief executive, Norwich Union Group, has been elected president of the CHARTERED INSURANCE INSTITUTE.

■ Mr Michael Bokenham, Mr Paul Bown, Mr Roy Harris and Mr Stephen Shipperley have been appointed to the board of CONNELL.

■ DEVELOPMENTS COMMERCIAL & INDUSTRIAL (HOLDINGS), Glasgow, has appointed Mr Alister W. Coutts as project management and development director. He was project co-ordinator for the Mass Transit Railway Corporation, Hong Kong.

Ladbroke property chief

Mr A.G. Long *(above)* will become chief executive of LADBROKE GROUP PROPERTIES on December 1, succeeding Mr E.M. Sheavills who joins Citigrove as managing director on that date. For the past three years Mr Long has been responsible for the financing of all Ladbroke's European property developments.

Monopolies Commission members

■ Mr Roger Davies, non-executive chairman of Thomson Travel Group, has been appointed a part-time member of the MONOPOLIES AND MERGERS COMMISSION for three years from August 1.

Mr Cyril Unwin, a retired trade unionist, and Mr Keith Carmichael, managing partner of Longcrofts, have been re-appointed part-time members.

British Telecom new post

■ From October 1 Mr Tony Vardy will become director of the new broadband and visual services unit in the communications systems division of BRITISH TELECOMMUNICATIONS. He is director, corporate strategy, and will be succeeded by Mr Bruce Bond from US West.

Mr Brian Rigby, director, BT Vision, will move to the new post of director of commercial development in British Telecom's corporate centre, on the same date.

■ REED TELEPUBLISHING, incorporating Reed Travel Group, has appointed Mr Mac Highet as vice president finance. He is assistant to the financial vice president of Reed Publishing USA. Mr Jack Walters becomes vice president human resources. He is with Bristol-Myers as director of personnel. Both will be based in New Jersey. The company is a division of Reed International.

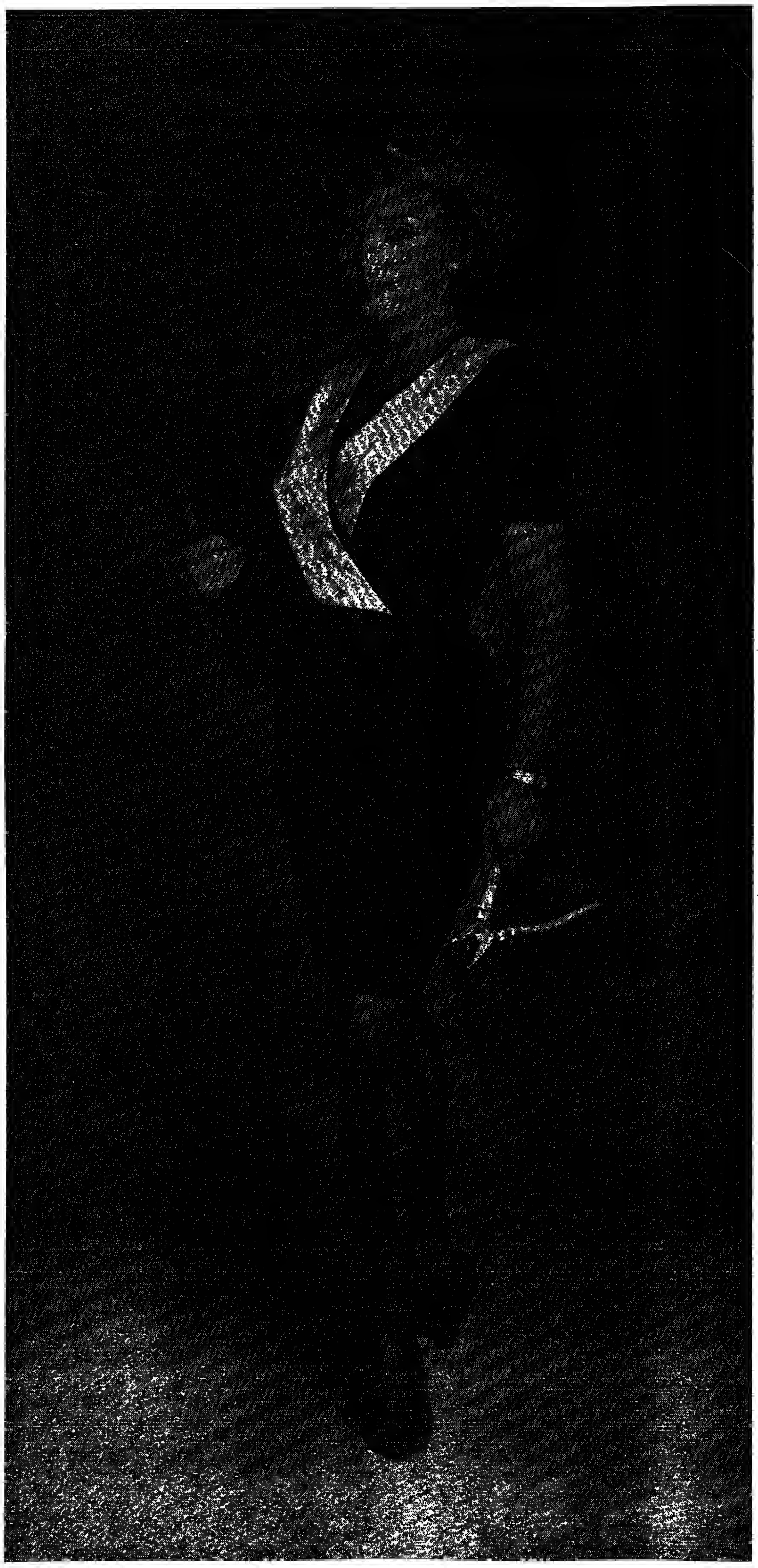
■ SIBEC has appointed Mr Alain Van der Brempt as managing director of Sibec Belgium. He was with Texas-based developer Trammel Crow. Mr Steven Armitage becomes managing director of Sibec Developments Deutschland. He was property director, international division, Ladbroke Group. Mr Rafik Souidi has been made managing director of Sibec France. Before joining Sibec's London office in April, he was development adviser to Mr Jean Louis Solal, president of Societe des Centres Commerciaux.

■ LEXTERTEN has appointed Mr Ian Morgan as production director. He was group operations director with G-Plan Group.

Director of personnel at AMEC

Mr Christopher J. Marshall *(above)* has been appointed director of personnel at AMEC. He was head of personnel at Deloitte, Haskins & Sells management consultancy division.

Michelle Hauptmann
Our Junior Trader on the Capital Markets Desk.



A EUSTON FILMS PRODUCTION FOR THE ITV NETWORK.

Shane Longman is a merchant bank which operates successfully all round the world. We're very proud of our affiliate offices in New York, Tokyo and Frankfurt.

Michelle Hauptmann arrived from Frankfurt a year ago, and she still lives in the same residential hotel which she moved into then.

She's smart, analytical – and very hard-working. But somehow, outside of office hours, Michelle seems to miss a few tricks.

But she's only young, and she wants to work her way up in banking. Which is why she's always in bed by 10 o'clock, listening to the financial news on the radio, despite lots of offers which other young women might find more tempting.

**She drives a hard bargain.
It's a ten-year-old Porsche which doesn't start properly.
Hence the pliers.**

Michelle is one of the primary assets of Shane Longman, the merchant bank in Thames Television's new drama serial *"Capital City."* You can see it *on ITV at 9 o'clock, on Tuesday nights.*

It's a compelling serial based on the lives of London's new breed of super-rich shakers and movers.

If you work in the City, it's going to be compulsory viewing – to see if we get it right.

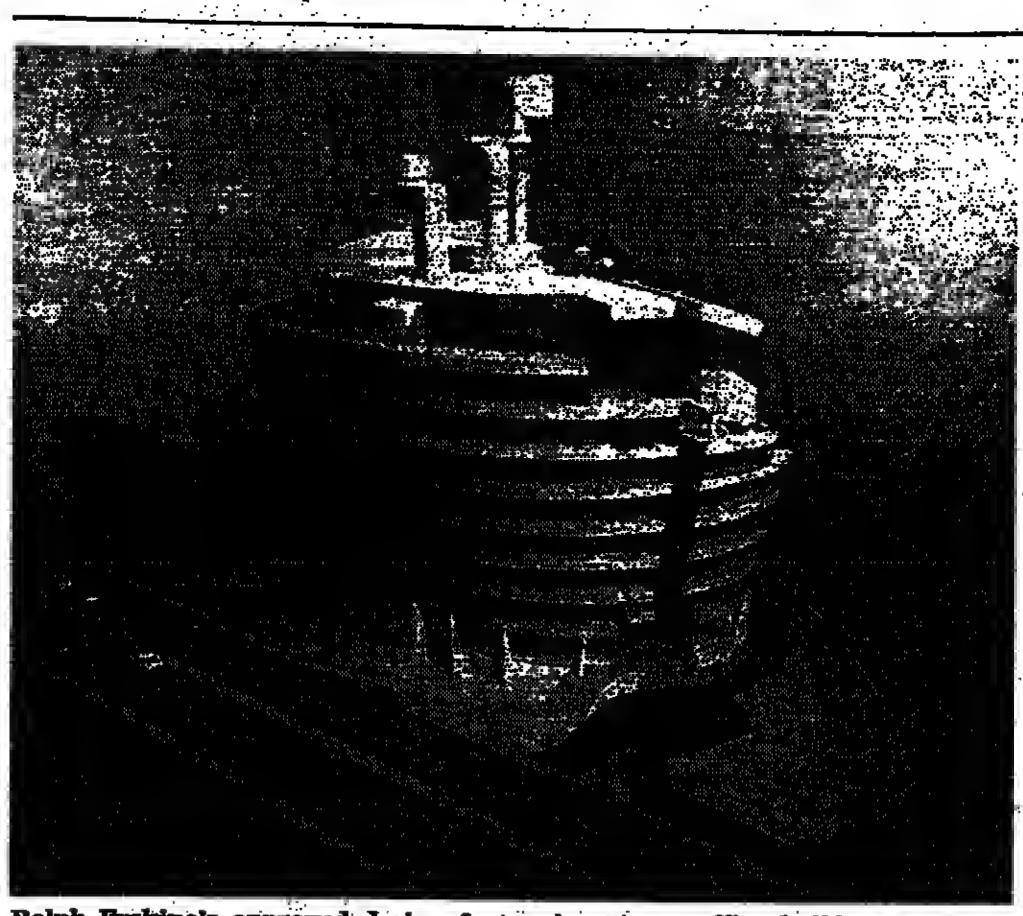
If you don't work in the City, it should be even more fascinating. Could the financial centre of the world really be peopled by characters like this?

THAMES TELEVISION XXI

Shane Longman

A merchant bank worth watching.

ARTS



Ralph Erskine's approved design for a nine storey office building alongside London's Hammersmith flyover takes the form of a giant streamlined ship. A highly visible headquarters for Swedish companies Enator and Ake Larson, roofed in copper and clad in bronze and glass, it promises to be an unlikely nautical landmark in a sea of cars.

ARCHITECTURE

Scandinavian cool

A cool wind is blowing from the north: it is the first sign of a Scandinavian Revival. First of all we had the Danish victory of architect Henning Larsen, winner of the Compton Verney Opera House competition. And last week, planning consent was given for the first major project in London to be designed by the Royal Institute of British Architects Gold Medallist, Ralph Erskine, born in Britain but certainly now seen as a Scandinavian architect (he moved to Sweden early in 1939).

In addition, the Swedish Embassy has just unveiled plans for a major Scandinavian exhibition of art, handicraft, industrial design and architecture to be held in Malmo during the summer of 1990.

The sense of ubiquitous but gentle Scandinavian influence is completed by the opening of an exhibition of Swedish glass and ceramics at the Victoria and Albert Museum.

What are the qualities of Scandinavian modern design that make it distinctive today, and why is it enjoying such a revival? It is necessary to look back over comparatively recent history.

The Stockholm Exhibition of 1930 was the earth shaker. An astonished world quite suddenly saw the point of what the Swedes called "funkis." This neat word combines the idea of the machine aesthetic, and social realism and concern. The exhibition was designed by Gunnar Asplund and, in showing modernism with a more human face, it was to have an enormous influence in England.

That influence went far beyond architecture and can be seen in our New Town Movement, the modern post war school building programme, and even in the encouragement of sun-bathing.

The Scandinavian influence consists of clean modern design softened by the inclusion in the architectural formula of a strong dose of the craft tradition. The Scandinavian preference is for the inclusion of natural materials where possible, particularly wood. The domestic scale is respected in the Nordic countries and a very careful relationship has been developed and maintained with the landscape.

In the 1920s and 1930s, modern architecture was embraced in Scandinavia by local authorities and governments, and their actions made "municipal" synonymous with high quality environment.

This particular quality is not confined to furniture, glass and ceramics but extends to the excellence of Swedish cars and boats.

Will the Malmo exhibition (to be known as NordForm 90) next summer generate the intense interest and excitement that the Stockholm exhibition did in the 1930s?

It is the first time that the five Nordic countries have united to show their design skills since Stockholm, and the less influential one at Helsingborg in 1955. The Malmo exhibition is entrusted to Thomas Hellquist, who won a major design competition. His proposition is curiously reminiscent of the Stockholm 1930s design with 42 towers and spiky flag poles, but it is also in tune with architecturally greener thinking, re-using warehouses and waterside buildings. It will revitalise a run down dockland area and provide a permanent inner city improvement.

The Malmo exhibition aims to look at lifestyles for the 1990s. In Scandinavia the future includes vastly improved public transport, much improved house design and a social awareness that reaches to displays about work and employment and an interesting speculation on the revival of craft-based industries. There will be a visionary landscape garden called Paradise to revive the symbolism of the land and nature in an urban setting.

The Stockholm exhibition of 1930 led directly to the Festival of Britain in 1951 and to the introduction of what was then called "Contemporary" architecture and design. That was when table legs were splayed and tapering and zig-zag modernism had its heyday.

Today the influence of Scandinavia is likely to be a moderating one. The cool elegance of designers who have never moved far from modernism will be a refreshing current in the turbulent post-modern waters. Ralph Erskine's designs for the large new building, which you will see from the Hammersmith flyover on the Heathrow trail, are remarkably refreshing and surprisingly nautical. He has made an office block that looks like a ship, complete with funnels, bridge and engine room.

Erskine has been working with another Swedish architect, Lennart Bergstrom, and the British architects Rock Townsend. The office development is for the Swedish firms Ake Larson and Enator — companies engaged in building and project management. Glass, bronze and copper will be the main materials. The design concept has an agreeably surreal quality, but will need to be superbly detailed in construction to live up to the stylish image.

Erskine is best known in Britain for the Byker wall near Newcastle, a controversial housing scheme that is, in fact, much liked by its residents. On a smaller scale, his most enjoyable building is the recent extension for Clare Hall in Cambridge. Byker was distinguished as a project for consistently asking its future residents what they wanted. The same level of consultation seems unlikely in a commercial scheme.

The Scandinavian revival is doubly welcome because of its detachment from the raucous debate in England its cool restatement of modern classical values in all aspects of architecture and design.

Colin Amery

Peter Grimes

GRAND THEATRE, LEEDS

Opera North performed Britten's opera in their first season ten years ago, but in a production borrowed from elsewhere. It is only natural that they should now have wanted to mount it in their own right, if for no other reason than to show off the chorus and orchestra that remain their strongest assets.

Both were at their best on Saturday under David Lloyd-Jones, the players pungent and forward in the Grand Theatre's lively acoustic, which as always allowed every word from the stage to tell, the singers full-throated and wonderfully disciplined.

It was rewarding in the big choral scenes to scan their faces and see the vivid, Stanislavskyan response at both individual and collective level. It is this constant alertness that makes them, I think, the best opera chorus working in this country today.

The curtain rose on a frozen tableau; a strange hissing noise (wind? sleet? – in fact the chorus) was silenced by a cry from Grimes, and the opera began.

Synchronized nods, silent laughter, freaky movements, melodramatic lighting from the floats, all suggested that Ronald Eyre was about to give us our first expressionist *Grimes*, a production to draw the work more closely into the orbit of *Wozzeck* – which is rather what happened in Lloyd-Jones's searing account of the final interlude.

But as Mark Thompson's simple and practical set (a tilted, circular revolving platform with descending walkway around it) became fully visible and the first scene progressed, Eyre's direction was revealed as altogether more conventional, certainly as regards the chorus.

The bourgeois soloists had elements of stylization in costumes, make-up and behaviour: the Nieces at one moment '50s slatterns in housecoats and feathered mules, at the next Millais maidens with shrimping nets; Swallow a comic-book lawyer with modern clipboard; Auntie plainly the owner of a profitable little business; Dr Crabbe a homunculus with disintegrating spats.

Fair enough: only Ned Keene, got up as an Arthur English-style spiv in an Ealing comedy complete with pencil-moustache and slouch hat, seemed too remote from the world of *Peter Grimes*.

The Prologue, then, could be read either as a false start or as a flashback-memory from the protagonist's Mad Scene. Grimes was indeed portrayed less as the visionary outsider conceived by Britten and Slater, more as the seriously mentally disturbed creature suggested by Crabbe.

This did not render the action any less uncomfortable for an English audience: the precise nature of the inconvenient individual swiftly to be disposed of by society is irrelevant. John Treleaven, a tenor who brings a powerful sense of identification to every role he sings, embodied the Eyre Grimes with terrifying intensity–a lowering, massive presence, bushy beard, coal-black eyes flashing fire.

Sadly his very involvement took him off the notes rather too often; for all the deft use of tone-colour at the man's madder moments (the thin, grating sound at "They listen to money" chilled the blood) the role has, surely, to be more exactly sung. But simply as a piece of characterization Treleaven's Grimes is an astounding and profoundly disturbing creation.

Marie Slorach's Ellen was beautifully sung, absolutely secure from top to bottom, always clearly projected. There was no hint of the current "revisionist" reading of the character as an interferer like the Governess in *Screw*; she was all dignity and concern.

An absorbing evening rather than a totally satisfying one. The dramatic focus is not quite tight enough. But the power of the score itself is in no sense diminished, and on musical grounds alone the production can safely be recommended.

Kissing the Pope

ALMEIDA THEATRE

The Contras are dominated by pathological bullies: American "advisors", in reality trained saboteurs. They order men prisoners to be sliced up, castrated and put to death. They gang rape women. The Sandinistas on the other hand rarely utter profanities, say "thank you" to one another, use words like "justice," gather fruit and even carry their exhausted prisoners through the jungle, smiling tenderly.

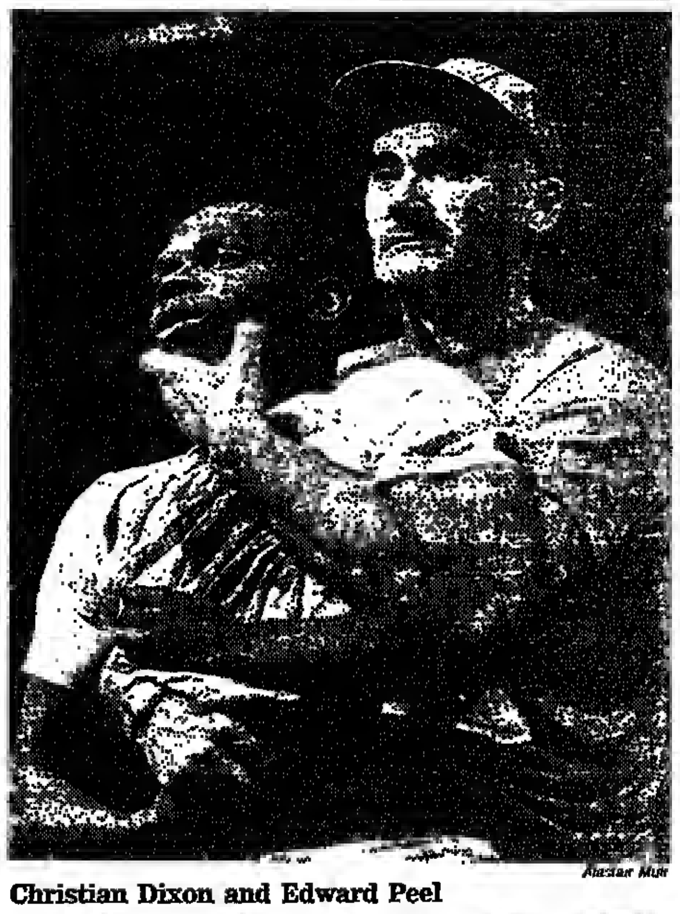
Nick Darke's new play *Kissing the Pope* in the RSC season at the Almeida in Islington is an unambiguous piece of propaganda. Some great plays are, of course, from *The Trojan Women* to *The Marriage of Figaro* to *Juno and the Paycock*; but they start and end with human beings, their predicaments and their relationships. The human element is something that the playwright has here treated somewhat cursorily before abandoning it altogether on the sacrificial altar of– not even politics but dogma.

The teenage prisoner Emilio and chirpy, dim executioner Sanchez are the survivors of a Contra mutiny when a native Nicaraguan is goaded into killing the evil gringo and his foul-mouthed collaborators. Captor and prisoner make it through the jungle to the Contra training camp where Sanchez is fêted and decorated and achieves his ambition to appear in the Miami Herald.

Emilio, who was forced to watch his father tortured to death, takes happily to baseball and burgers in the bosom of his family's killers. The writing concentrates on filling out the character of Sanchez, his garbled view of politics (there's a war in Europe, the Ayatollah is British; Russia and Israel are fighting France), the obscene myths that soldiers in all wars propagate about the other side (the least unprintable of which is that Russians and Cubans bite off babies' heads), the brainwashed dedication to cheap slogans, and his basic insecure loneliness (he gives Emilio a lecture on being baddies in case we miss the point). It leaves Emilio a cypher, equally prepared to serve either side and apparently soon over his father's death. As the study of a relationship the play is cripplingly one-sided. Its abrupt conclusion after an ambush scene where the gentle Sandinistas beamingly share their food with their captives before taking them to Shangri-La (Sanchez in a traumatised trance at the realisation that they too carry images of the Pope with appropriate political slogan) is almost insolently simplistic: a didactic anecdote has swollen to two and a half hours of jeering.

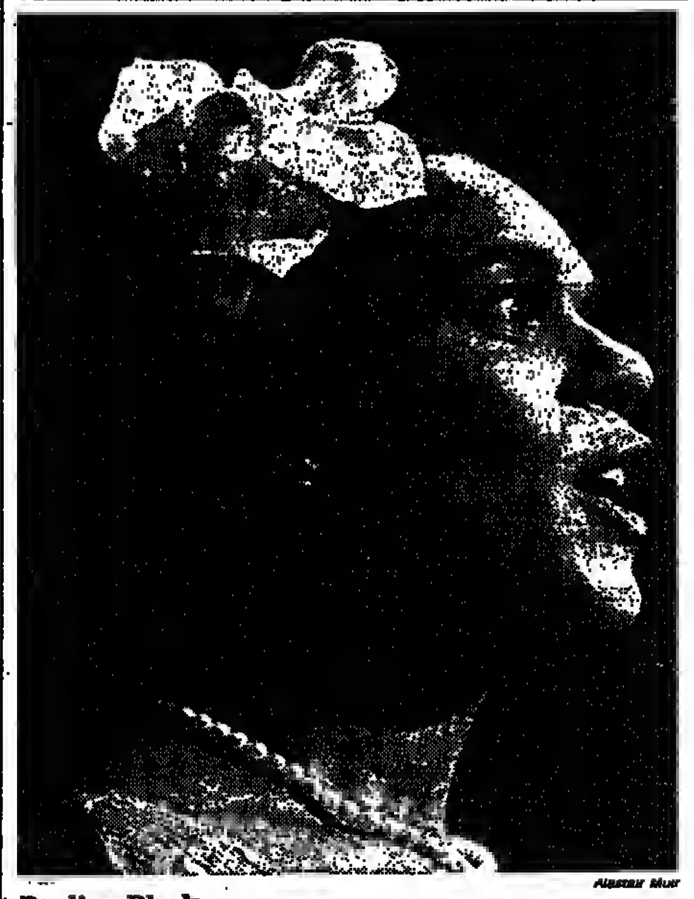
Roger Michell's production uses every inch of the acting area, from the Sparks who clambers up to the gallery to tap the wires to the sounds of roistering, yelling and torture from soldiers placed offstage in the Almeida's courtyard (a bit obtrusively for those seated by the open door). Mark Hadley's Sanchez is a feat of memory rather than a characterisation, but as an animated catalogue of attitudes he has little choice. As Emilio Christian Dixon has even less. He registers dazed shock very well, but the writing provides him with little else, though that little Mr Dixon plays on a note of squawking indignation.

Martin Hoyle



Alastair Muir

Christian Dixon and Edward Peel



Alastair Muir

Pauline Black

All or nothing at all

TRICYCLE THEATRE, KILBURN

I did not realise how very much I had been missing the Tricycle in the Kilburn High Road until it re-opened last week. The venne was completely destroyed by a still-unexplained fire in May, 1987. At a cost of £1.4m, the informal, neo-Georgian 225-seater interior has heen reconstructed, the bar agreeably extended, and a new room for local community activities added in the name of the late James Baldwin.

It is a perfect arena, bringing the audience close to the actors but allowing for the grand gesture. Here again are the wrap-around galleries in hright red builders' scaffolding with their canvas fronts, the comfortable bench seating. The air-conditioning is most welcome, too.

The funds for this minor miracle have come from the London Borough of Brent, the Department of the Environment's Urhan Programme, Greater London Arts, the Arts Council and a building appeal.

The first offering is a play with music about Billie Holiday. And therehy hangs a sad tale. It is an extremely tedious bio-drama of the sort rendered redundant years ago, not least by the very fine Diana Ross film about the great Lady Day.

The anthor, Caryl Phillips, removed his name from the show after falling out (we have never discovered why) with the Tricycle's artistic director, Nicolas Kent. Kent pressed on, Phillips went to the High Court to seek an injunction, lost his case, and is left with legal costs of £15,000.

The play runs to nearly three hours and deserves to be cut by at least one of them.

Every word spoken is Phillips's, though it is impossible to define what he wants to say ahont Billie Holiday heyond charting the bare bones of her familiar tragedy.

These Holiday charted more than adequately herself each time she opened her mouth.

Phillips does not progress beyond sketching the profundity of her relationship with the saxophonist Lester Young (superhly played, and hlown, by Alan Cooke), and moving us clumsily from the flophouse in Baltimore to the low dives and tenement stoops of Harlem, the controversial tour with a white band of the Deep South, and hack to the "first integrated night clnh in New York," the Café Society.

You keep catching glimpses of what Phillips might have developed: the transition from cotton-picking blues icon to pin-up of the new Luther King-style political black consciousness; the Mother's girl who can neither handle men nor control her addictions; the natural talent whose genius and revolutionary vocal techniques spring from dissipation, not effort.

Pauline Black has the translucent beauty of Holiday and touchingly enacts the hackstage scene with Mom in which the white gardenia is adopted to cover a hair-styling mistake.

The songs are wonderful – "These Foolish Things," "The Very Thought of You," "You Go To My Head," the title, closing number – and are well sung.

The play is a predictable rise and fall story, with every scene making you wish they would get on with the music.

The design is hy Poppy Mitchell, and s strong cast includes Henry Goodman as the Jewish agent and Cyril Nri as the no-good pimp

Michael Coveney

ARTS GUIDE

September 26-October 2

MUSIC

Paris

Paul Kuentz Orchestra and Choir, with Jean-Marie Gamard (cello). Dvorak. Saint-Severin Church (Mon). (48543000).
Moscow State Orchestra conducted by Gennady Rozdestvensky, with Igor Oistrakh (violin). Rimsky-Korsakov, Tchaikovsky, Shostakovich. Chatelet (Tue) (40282828).
Orchestre National de France conducted by Jeffrey Tate with Philippe Entremont (piano). Fauré, Ravel. Chatelet (Wed) (40282828).
Orchestre de Paris conducted by Semyon Bychkov with Edith Wiens (soprano), Marjana Lipovsek (mezzo-soprano). Mahler. Salle Pleyel (Wed, Thur) (45638873).
Trevor Pinnock, harpsichord. J.S.Bach, Couperin, Rameau. Auditorium des Halles (Thur)(40282828).
English Chamber Orchestra conducted by Sir Colin Davis, with Elisabeth Leonskaja (piano). Mozart. Chatelet (Thur) (40282828)

Brussels

Cleveland Quartet plays Beethoven and Berg. Cercle Royal Gaulois (Mon).
Christa Ludwig (mezzo-soprano) with Charles Spencer (piano) sings Schubert. Théâtre Royal de la Monnaie (Tues).
Kuijken String Quartet performs Haydn and Mozart. Musée d'Art Ancien (Wed).
The Imperial Gagaku Orchestra from Tokyo performs music and dance of the Imperial court; part of the Europalia Japan 89 festival. Palais des Beaux-Arts (Wed).

Vienna

Moscow Philharmonik conducted by Dimitri Kitaenko. Puccini, Scriabin, Prokofiev. Musikverein (Tues, Wed).
Wiener String Quartet. Haydn, Hindemith, Debussy. Musikverein. (Thur).

Frankfurter Feste 1989

This year's Frankfurt Festival with the title of A Common Brotherhood is based on two historic events: the French Revolution in 1789 and the start of the Second World War II 50 years ago.

The programme attempts to explain the historic events and their influence on contemporary culture and society in terms of the struggle for liberty. There will performances of works by Mauricio Kagel, of Britten's War Requiem and Prokofiev's Alexander Nevsky. There will be also be contemporary music by Wolfgang Rihm, Mauricio Kagel, Michael Seli and Antonio Madigan. Alte Oper: tickets Frankfurt 069/1340-400. Ends Oct 3.

Bonn

Beethovenfest will be the highlight of Bonn's 2,000th anniversary celebrations, with around 30 concerts. Bonn, Beethoven's birthplace, focuses on a wide range of his works, played by international orchestras, while Beethoven's works will be juxtaposed with those of a contemporary composer, who this year will be Leonard Bernstein.

Among the orchestras appearing are: Berlin Philharmonic under Lorin Maazel, Royal Concertgebow Orchestra Amsterdam, conducted by Riccardo Chailly, the London Classical Players, the English Baroque soloists and the Monteverdi Choir of London, conducted by John Eliot Gardiner, the Vienna Philharmonic under Leonard Bernstein, the Dresden Philharmonic, the Bonn Beethovenhalle Orchestra under music director Dennis Russell Davies, who is also the artistic director of the festival. Soloists include Alfred Brendel, Andor Foldes, Krystan Zimerman, Janos Starker, HannaSchwarz, Cheryl Studer, Bernd Weikl and Reiner Goldberg. Until Oct 2. Tickets: Konzertkasse Tel: 0228/775756.

Berlin

Berlin Festival until Oct 2 will be s forum of 'East meets West'. The Hamburg Philharmonic Orchestra and Vladimir Ashkenazy (piano), conducted by Gerd Albrecht plays Aribert Reimann, Brahms andJanacek. Philharmonie.
Ludwigsburger Schloss, Theater im Forum: 25th anniversary concert of the Monteverdi Choir London and the English Baroque Soloists, conducted by John Eliot Gardiner in Mozart and Beethoven (Wed).

Milan

Teatro Alla Scala. Gary Bertini conducts Mahler's 6th symphony (Mon, Tues, Wed). Conservatorio G. Verdi (809.126).

New York

New York Philharmonic, Zubin Mehta conducting with Murray Perahia (piano). Beethoven, Mahler (Tue); Mozart, Wagner, Beethoven (Thur). Avery Fisher Hall (874 2424).

Washington

National Symphony Orchestra conducted by Mstislav Rostropovich with Paul Tortelier (cello). Saint-Saens, Elgar, Schubert (Thur). Kennedy Center Concert Hall (467 4600).
Guarneri String Quartet. Haydn, Lutoslawski, Schumann (Thur). Kennedy Center Terrace Theater (467 4600).

Chicago

Chicago Symphony Orchestra conducted by music director-designate Daniel Barenboim, with Larry Combs (clarinet). Brahms programme for season opener (Thur). Orchestra Hall (435 6666).

Tokyo

NHK Symphony Orchestra conducted by Hiroyki Iwaki. Beethoven's 9th symphony. Bunkamura (Mon) (461 0300).
Lithuanian Chamber Orchestra conducted by Saulyus Sondetskis. Tchaikovsky, Bach, Vivaldi. Suntory Hall (Tues) (505 1010).
Shinsei Nihon Symphony Orchestra conducted hy Yuhzo Toyama, Yuan Fana. Music from Asia/Oceania. Maki Ishii: concerto for fue and orchestra. Suntory Hall (Thur) (985 4636).
Jean-Pierre Rampal (flute), with the Tokyo Metropolitan Symphony Orchestra, conducted by Kazuhiro Koizumi. Glinka, Khachaturian, Stravinsky. Tokyo Bunka Kaikan (Thur) (822 0727).

OBITUARY

Irving Berlin

IRVING BERLIN, who died in his sleep in New York aged 101 on Friday night, probahly gave more pleasure to more people in the English-speaking world than any other composer of this century.

In a remark much quoted, and mis-quoted, this weekend, Jeroms Kern was once asked to define Berlin's place in American music. "Irving Berlin has no place in American music – he *is* American music," Kern replied.

Berlin himself never claimed the title composer (although George Gershwin once dubbed him America's Franz Schubert). He preferred to be known as a songwriter.

Born of Russian Jewish parents, he came with them to New York in 1902, lived in the Lower East Side, worked as a singing waiter and musical dogshody.

By 1911 he was world-famous thanks to "Alexander's Ragtime Band," and in 1919 he founded his own publishing company, Irving Berlin Inc., guarding his copyrights, as well as his privacy, with tenacious zeal for the rest of his life.

His last Broadway musical was *Mr President* (1962), a resounding flop with no memorahle songs. When asked, in general, which of his songs were his favourites, Berlin replied "the hits." Many of his best songs were written for the inter-War revues of Charles Cochran and Florenz Ziegfeld.

But the film scores for *Easter Parode* in 1948 (for Fred Astaire) and three Astaire-Ginger Rogers 1930s classics – *Top Hot* ("Cheek to Cheek", "Isn't It A Lovely Day?"), *Follow the Fleet* and *Carefree* – are sopreme examples of the Hollywood musical as an art form.

Recent London revivals of his two higgest post-War shows, *Annie Get Your Gun* and *Call Me Madam*, hoth originally written for Ethel Merman, suggested that the songs will easily outlive the vehicles, especially in these watershed times for the musical theatre, with the current craze for through-composed drama aspiring to light opera. "God Bless America", "There's No Business Like Showhusiness" and "White Christmas" are powerful, totemic songs with a disturbing propensity to affect large gatherings, however often you hear them.

But any list will arouse personal tingles: the graceful plangency of "What'll I Do?" and "Always"; the haunting melodiousness of "Let's face the music and dance"; and the upbeat, syncopated elegance of the duet that is probably the most exciting and insidious of all his theatre songs, "Yon're just in love." MC

FINANCIAL TIMES

NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 01-873 3000 Telex: 922186 Fax: 01-407 5700

Monday September 25 1989

Bundesbank in a dilemma

ONE OF the more peculiar consequences of a world of free movement of capital is that the strong currencies have often been so weak. At the moment, for example, the D-Mark and the yen are under downward pressure from the resurgent dollar, despite continued (if declining) trade imbalances and the improving competitiveness of both economies.

In the same way, the Bundesbank now sees West Germany importing inflation from the rapidly expanding economies of its neighbours and regrets that the time-honoured and most expeditious remedy – appreciation of the currency – is beyond its grasp. It has to content itself instead with what it regards as the second best option of imposing a tighter monetary policy on the European Community as a whole.

After years of drought, West Germany has suddenly found itself drowning in economic growth. The 3.6 per cent growth of gross national product in 1988 was remarkable enough. As recently as last July the OECD forecast GNP growth of 3¼ per cent for 1989. With growth in the year to the first two quarters at 4.4 per cent and 4.9 per cent, respectively, 4 per cent is a far more likely outcome.

Price stability

All this is too much of a good thing for a conservative central bank, which is judged by its success in preserving price stability. It is true that the annual rate of inflation has stabilised at around 3 per cent. But, in the words of the Bundesbank's latest monthly report, "the price situation, which for the moment at least appears calm, should not hide the growing risks."

No less than half the growth in demand in the year to the second quarter was accounted for by the increase in net exports, 30 per cent was contributed by the expansion of largely export-related investment and a mere 20 per cent was generated by domestic consumption. What needs to be curbed, therefore, is the growth of demand outside the country, especially in the rest of the EC, with which the German trade surplus reached Ecu35bn in 1988.

Most central banks cannot directly influence the policies of other central banks. But this is not the situation of the Bundesbank. For the EC as a whole the lead being given by the Bundesbank is unquestionably desirable, but the Bundesbank itself is somewhat unhappy about the situation. Its task is to stabilise prices within Germany. From that point of view an appreciation of the D-mark would be far more effective than waiting for higher interest rates to cool demand in the EC as a whole.

D-Mark weakness

Unfortunately from the Bundesbank's point of view, there is little it can do about the current weakness of the D-mark. The pattern of exchange rates within the European Monetary System is proving surprisingly stable, despite growing trade imbalances. Political uncertainty in West Germany and rising domestic inflation are among the reasons for the currency's weakness.

But the most important explanation is the growing credibility of the exchange rate commitments of other EC countries. German investors have become quite happy about investment elsewhere in the EC, while people living elsewhere are quite happy to borrow in D-Marks. There is now a virtuous circle of exchange rate stability within the EMS.

The more fundamental question is whether this stability is not premature. The real exchange rate of the D-Mark is tending to depreciate steadily. Though its huge bilateral trade surpluses are partly the result of cyclical forces, a considerable part must be structural. It is an open question whether capital outflows on the present scale can be sustained indefinitely. If not, the issue of EMS realignment will surely recur.

For the moment the pattern of exchange rates within the EMS is stable and the role of the Bundesbank desirable, if not for West Germany, at least for everyone else in the EC. None the less, it would be a grave mistake to presume that the present pattern of exchange rates really is the last word, before monetary union arrives.

The merits of road pricing

CAR USE in the UK is predicted to rise by between 80 per cent and 140 per cent over the next 35 years. An increase in road capacity to match such a rise in demand would be neither feasible nor desirable. Indeed, present plans envisage only a 2 per cent increase in capacity, despite a doubling of the road investment programme. If nothing is done to restrain the private motorist, a steady worsening of traffic congestion in London and the south-east looks inevitable.

The solution advocated by the Institute for Public Policy Research, the left-of-centre think tank chaired by Baroness Blackstone, is road pricing. Its first pamphlet, A Cleaner, Faster London, says charges should be introduced initially in the form of supplementary licensing – an extra daily fee levied on drivers using cars in central London. By the mid-1990s, however, "smartcard" technology would permit the use of electronic road pricing. This would allow charges to be varied according to the time of day and route chosen. Equally important, the use of smartcards makes anonymous forms of electronic pricing feasible: motorists can be charged without a Big Brother monitoring their every movement.

Additional delay

In deciding when to use their cars, motorists take account only of costs and benefits to themselves. But each extra car reduces the road space available for others. If traffic is moving at an average speed of 10 mph, every additional car driving for one minute imposes two minutes' additional delay on the other vehicles. If the average traffic speed is 5 mph, the additional delay is 10 minutes. Road pricing is no more than a technical device to improve traffic flow by obliging motorists to take account of these external costs. It is estimated that in central London a daily charge of about £3 would reduce congestion and raise average traffic speeds to between 16 mph and 19 mph.

But road pricing is also a potent means of reducing pollution – another external cost imposed by motorists. Cars are responsible for a significant proportion of carbon dioxide, lead and other pollutants which reduce the quality of city life. The problem is exacerbated by low traffic speeds. Road pricing can thus be seen as an example of the "polluter pays" principle.

Bus services

The main objections to road pricing are that it is unfair and impractical. The unfairness charge is relatively easily countered. Rich drivers are found to find charges less burdensome than poor drivers. On the other hand, only 20 per cent of the poorest quarter of households own a car compared with 93 per cent of the richest. Many higher earners own several cars. Road pricing, by improving traffic flow, ought to improve the efficiency of bus services which are used disproportionately by the low paid. The force of this argument is increased if, as the institute suggests, part of the revenue raised from road pricing is used to improve public transport.

But would it be practicable? Overseas experience seems encouraging. Supplementary licensing has been in use in Singapore for 14 years. Electronic road pricing was successfully tested in Hong Kong and is expected to be introduced in parts of the Netherlands in 1996. The costs do not look prohibitive. One study puts the initial capital costs for an electronic system in central London at only £75m. There would certainly be snags. Traffic would tend to bunch outside the metered zone. Temporary arrangements would have to be made for drivers visiting the metered zone on an occasional basis. But the overall benefits of road pricing seem likely to outweigh the various costs.

The Blackstone institute was established to counter the considerable influence of right-of-centre think tanks such as the Institute of Economic Affairs and the Centre for Policy Studies. This first pamphlet marks a rather shrewd début. In advocating road pricing, the institute has seized the clothing of free market theorists and shown it can be cut to serve the needs of society at large. This is exactly the kind of policy which the Labour Party ought to be backing if it is to attract greater support.

The good, the bad, the indifferent

David Buchan assesses the record of EC compliance with Brussels directives

THE engine of the 1992 omnibus is racing along, but some of the passengers peering over the chassis have noticed that the wheels may be spinning in sand.

What is the point, many are beginning to ask, of ministers nodding through a spate of internal market legislation, if it is not put into effect in all 12 European Community states.

The European Commission has highlighted the issue in a report to EC ministers last week. It gives them a pat on the back for reaching final, or partial, agreement on half the 279 measures in the white paper establishing the single market, but a thwack on the bottom for collectively failing to implement nine-tenths of the EC directives which should by now be national law. Of the 68 internal market directives which should be in force, only seven have been implemented by all 12 states, the Commission claims, though it admits its figures may be a few weeks out of date.

The score card among EC states differs widely. Those with the best record are the UK, France, Denmark and the Netherlands, and those with the worst are Italy and Greece, with understandable allowance made for the newest entrants – Spain and Portugal. They are still struggling to digest the more than 1,000 old directives which they undertook to swallow on joining the Community less than three years ago.

Now, the division between good and bad boys in the Community classroom is emerging as a big political issue, one that Britain, in particular, intends to exploit.

The Commission paper accused Britain of failing to implement 11 of the 68 internal market directives now in force. But Mr John Redwood, the UK junior Industry Minister, said that, taking into account 10 new measures now in force in the UK, there was only one sin of omission that could be laid at Britain's door. This concerns a measure on intra-EC trade in meat, which UK officials say is being held up so that it can be passed into law along with two other related directives with an implementation deadline next year.

Britain's good implementation record is becoming the centrepiece of its defence that it is a better European than many other countries that do not practise what they preach, or sign up to. As one UK official put it: "The reason why we often appear to quibble, argue, moan during negotiations is precisely because we have the machinery to implement the end result quickly and fairly."

Might, however, the spirit of truancy prove catching? British officials deny they have any intention of going slow on 1992 until such time as other states catch up. But it is likely that the UK Government will use it as an argument for going slow in other policy areas outside the internal market. When Mrs Margaret Thatcher lays special emphasis on "completion" of the internal market as one of her preconditions for any contemplation of further steps down the road to economic and monetary union, she is referring to implementation, not just approval, of EC measures.

The problem of translating collective decisions into individual national action is as old as the Community. It underscores the maxim that to be a member of the Community you need a good civil service.

Generally, two sets of countries have problems – those around the Mediterranean whose administrations adopt a more "mañana" approach to their duties, and federal states like West Germany. Some fall into both categories, like Italy and Spain, being both southern and devolving more power to their regions than unitary states like Britain and France.

The difficulty – both in the negotiation and implementation of EC law – is that the Treaty of Rome recognises only national central governments, and that it is up to them to ensure that EC law is translated into local law, be it national or regional. The mismatch is compounded by the drift of Community competence into areas – like social, environmental or cultural (TV broadcasting) policies – where federal states have devolved power to their regions.

However, there are special factors for the bad performance of Greece and Italy. In the late 1970s, the Karamanlis government was so eager to get into the Community before losing power to the (then anti-EC) Pasok party that it agreed to deadlines for incorporation of EC law which the Greek civil service could not possibly meet. This got Greece off to a bad start, from which it has not recovered; the Athens government is the second most frequent defendant in the Luxembourg dock of the European Court.

The most frequent occupant of that invidious position is Italy. It is not only the biggest offender, but also the biggest repeat offender. On 10 occasions, the court has had to issue second rulings, ordering a member state to comply with a first ruling. All of these second rulings have been directed at Italy.

For instance, Rome has failed to comply with a 1987 court ruling ordering it to obey a 1983 ruling for failing to conform with EC norms on inspection of fruit and vegetables. A stronger case of truancy concerns Italy's failure to conform with a 1975 directive requiring employers to consult and give adequate notice to workers whom they are dismissing *en masse*, despite court rulings against it in 1982 and 1985. Italian officials say their national law is more generous to workers in big industry than the EC norm dictates, but they cannot get the EC measure past objections from managers of small businesses and farm co-operatives.

However, Rome may soon mend some of its errant ways. By the so-called La Pergola law – which will only prove its worth next year when it comes into force – the Italian Government will at the start of every year review what unfulfilled EC legal obligations are left over from the previous year; the legislative backlog will either be swept up in an omnibus statute or be passed by decree.

All 10 of the more long-standing member states have flouted the European Court. Even those members which one might imagine to be the more judicially minded have so offended. Britain has failed to comply with a court ruling on car lights, and Germany with a ruling against the bogus voyages which "butter ships" of northern Germany take into international waters just to sell goods to passengers "duty free."

Does it really matter to one state what others do? Yes, for the simple reason that unless EC legislation goes uniformly into force in all member states, the famous market will remain uncommon. There is a further problem which at the moment there is no means of addressing. This is the degree of uniformity, not just in transposing EC law into national law but in the actual enforcement of that EC-inspired national law.

One of the few detailed studies of the implementation of an EC regulation shows how uneven it can be. Alan Butt Philip, a British academic, took all the various EC rules (passed mainly in the 1970s) requiring trucks to carry tachographs, or "spies in the cab" as they are known by those who detest them, to measure drivers' hours and speeds in the interest of road safety. Examination of the sanctions taken by governments against drivers found to be breaking the rules on hours and tachographs showed wide variation. Four countries allowed a prison sentence for extreme or systematic offenders, and only the UK has ever jailed anyone. Other states imposed fines, often very light.

The reason for this lack of common sanctions is that criminal law is considered outside Community competence, partly because EC institutions are thought to be too remote from democratic control for them to enter such a sensitive area. The Commission can only impose civil penalties (fines) in that part of EC law (competition) which it enforces directly.

What, though, are the possible remedies for laggardly incorporation of EC law into national statutes? One is more use of regulations (which take effect the minute they appear in the Community's Official Journal) rather than directives (which are a legislative framework for subsequent national laws by a certain date). Mr Martin Bangemann, the Internal Market Commissioner, last week threatened that if the member states did not get their legislative acts together quickly, he would propose more regulations. But it is an empty threat, because governments, which have the final say, have shown a strong bent for directives.

Another option is giving states more time to act. But the average implementation deadline for an EC directive is already 18 months from the time it gets the nod in Brussels, and formal "derogations" (exemptions for periods of years) are only given to demonstrably weak economies.

Coercion is out of the question. Governments cannot be treated like burglars. The Community has no police force, only the moral rule of law.

One possible answer is recourse through national courts. Governments generally obey their own courts, and the latter can, and do increasingly, apply to Luxembourg for preliminary rulings if they feel there is Community law that bears on the case in front of them. Generally, too, national courts follow the line they get from Luxembourg. This decentralised, grassroots approach to enforcing EC law has the attraction of not always relying on the Commission's overstretched legal service and the over-burdened Luxembourg judiciary.

It, however, depends very much on lawyers and judges in member states being aware of any relevant EC case law or legal principles. More important, it does not really respond to the trend that is likely to emerge after 1992. This is of companies or individuals in one member state clamouring for access to the market of another member state, but finding that until they get such access they may have no standing in the latter state's national courts. Thus, it may still be up to the central institutions in Brussels and Luxembourg to make the running.

PUTTING SINGLE MARKET DIRECTIVES INTO EFFECT

Country	Implemented	Not implemented	Infringements	Derogation	Not applicable
Belgium	46	13	4	0	0
West Germany	47	12	4	0	0
Denmark	51	9	3	0	0
Spain	30	28	1	4	0
France	54	8	1	0	0
Greece	39	17	4	3	0
Italy	29	23	10	0	1
Ireland	46	12	3	0	2
Luxembourg	46	12	2	0	1
Netherlands	51	10	2	0	0
Portugal	21	37	0	5	0
UK	50	11	1	0	1

OBSERVER

Hard times in Washington

■ Washington battened down the hatches on Friday in readiness for Hurricane Hugo. What blew in instead was more predictable: the early arrivals for the annual meetings of the International Monetary Fund and World Bank.

Nevertheless, Hugo complicated the travel plans of many trying to get in. About 100 officials from the Commonwealth finance ministers meeting in Kingston, Jamaica were deposited at Kennedy airport in New York because of the hurricane threat. Many then embarked on a 6½-hour bus journey south, punctuated only by a stop on the way at a Roy Rogers fast food restaurant. In Washington they found that the airports had been open all day.

Roughly 10,000 people are estimated to arrive in the city for these annual meetings, about a third of them delegates. Journalists alone number 1,000.

Even the latter have their uses. The press room was inundated briefly on Saturday by a British contingent, led by Sir Terence Burns, the Treasury's chief economic adviser, supporter of Queens Park Rangers, the London soccer club, and a keen golfer. They wanted to know the English football results and the state of the Ryder Cup.

The mood of their leader, Nigel Lawson, is being watched closely by British reporters because of the imminence of the latest UK trade figures. Message to the markets: the Chancellor was in buoyant form yesterday.

No comment

■ Extract from the third volume of Tony Benn's Diaries, which will be published this week:

"*Sunday 26 December, 1976*: Caroline gave us each a copy of the Communist Manifesto in our stockings, published in English in Russia, and she gave Josh a book called Marx for Beginners and gave Hilary Isaac Deutscher's three-volume biography of Trotsky. I read the Communist Manifesto yesterday, never having read it before and I found that, without having read any Communist text, I had come to Marx's view."

Pulling power

■ Such is the drawing power of Sir James Goldsmith that the lecture he is to give at the Queen Elizabeth conference centre on October 19 under the auspices of the Adam Smith Institute is already assured of a full house, even though the subject has not yet been announced. The lecture was arranged long before his Hoylake consortium launched its bid for BAT.

965 not out

■ A new record has been set in sumo, the most traditional of Japanese sports. The 34-year-old, Chiyonofuji, has become the most successful sumo wrestler of all time. He made history in less than five seconds by overturning his opponent to secure the 965th victory of his career. No one has achieved more.

Chiyonofuji accepted his victory like a true Japanese. Sumo fighters generally do not dance for joy or raise their hands in exultation, but most cannot help grinning in recognition of the adulation of their fans. Not Chiyonofuji: only the faintest smile crept across his face before self-restraint fell like a veil over his emotions.

Chiyonofuji has the looks of a hero. At 122 kg, he is one of the lightest wrestlers ever to reach the top rank of yokozuna, or grand champion. But he is strong enough to throw men twice his size out of the ring. His fans, including many women, say that it is his piercing eyes that set him apart. He stares at opponents like a hungry animal and is known as "The Wolf."

"It's a great loss to humming"

Like any true hero, Chiyonofuji has suffered. He has dislocated his left shoulder 14 times, but has rebuilt his muscles every time by a gruelling amount of weight-lifting. While some sumo fighters let their bellies grow fat with beer and sake, Chiyonofuji rarely drinks.

He has also known tragedy. Among all his other qualities, he is regarded as an exemplary family man. Earlier this year he was made "Father of the Year" in a national contest. Within days of the award, he lost his baby daughter, apparently a victim of cot death. Messages of sympathy arrived from around the world, including one from Mstislav Rostropovich, the cellist and sumo fan.

For the last five years, he has been the only truly outstanding wrestler. Most of his rivals are at least five years younger. Even after his record, the betting is that he will not retire until he sees a worthy successor emerging.

Deane's return

■ Marjorie Deane, the doyenne of the international financial press corps, is at the IMF in Washington this week with a special mission: to woo subscribers for her new publication, Financial Report.

It bears the same name as the newsletter she edited for 12 years at The Economist until it was axed last year on the ground that the company needed the office space she occupied.

Deane subsequently joined Meletai, a London-based consultancy which specialises in international financial and economic analysis. It is owned by Minos Zombanakis, one of the early luminaries of the Euromarkets, and Andrew Hilton, an economist formerly with the World Bank.

The first issue of the new Financial Report came out on Thursday: it contains Deane's latest thinking on the big issues of the day: South Africa (harder times ahead), Europe 1992 (troubles loom for the Banking Directive) and the IMF meeting itself, which Deane thinks must address itself to boosting the World Bank.

The report also continues its predecessor's gossip column, in which Deane pooh-poohs rumours that Robin Leigh-Pemberton might cut short his second term as Governor of the Bank of England. He is "patently enjoying his job," she says. On that she is absolutely right.

Out and out

■ Did you hear about the hospital nurse who was nicknamed "Appendix"? She only allowed doctors to take her out.

Hazel Duffy reports on attempts to revivify the Northern Ireland economy

Shopping and symbolism

When Mrs Thatcher, the Prime Minister, visited Northern Ireland earlier this month, one of the sights she was shown was a new shopping centre on the outskirts of Belfast.

Shopping centres are important in the rehabilitation of the Ulster economy, a policy which the Government – foiled in its attempts to find a way out of the political logjam in the province – is now pursuing. When the retailers Debenhams signed up to take space in the Castle Court complex, local people saw it as confirmation that Belfast was returning to normality. The complex has been twice bombed by the IRA while under construction, but that does not seem to have shattered confidence.

The Richmond shopping centre in Londonderry, the second city of the province, was opened in 1984, built with government money after the private developers pulled out. The city has been the scene of some of the worst violence in the last 21 years, and is more depressed and more segregated than Belfast.

Today, private funding for a new town centre is in the offing. It is expected to come not from London, but from institutions in Boston. If the plans work out, it will be the "best thing that has happened in Londonderry for 300 years," says Mr Richard Needham, Minister for the Economy. It is a rather unfortunate reference, given the significance of the siege in 1689 which became a symbol for loyalist defiance.

But it would be a practical outcome of the links between the city and Boston that have grown up in the last two years. The Government is helping: the Environment Department is buying up land for the site of the centre.

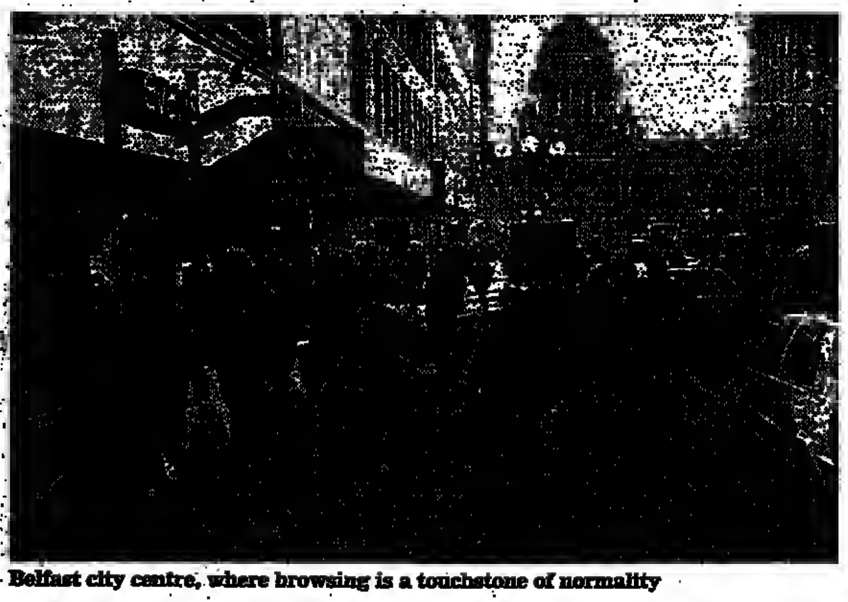
Marks and Spencer is weighing up the merits of opening a store in Londonderry. It is a small point to outsiders, but of no small importance to those who see the presence of the chain as a symbol of normality.

On Mrs Thatcher's visit, she did not go into Londonderry's city centre. She did, however, go to the Du Pont plant which is the biggest employer in the area, and then on to workshops in a factory formerly used by Courtaulds. Du Pont has stayed in Northern Ireland; Courtaulds was one of the many multinationals which pulled out of the province. When international companies engaged in restructuring in the 1970s, Northern Ireland too often found it had drawn the short straw.

Richard Needham, old Etonian, sixth Earl of Kilmorey (an Irish title inherited through an uncle), once a member of the Tobacco Workers' Union, obtained responsibility for the Northern Ireland economy in the summer's Government reshuffle. He combines it with responsibility for urban renewal.

Mr Needham, who says he is so "wet" that he must be "very grateful to Mrs Thatcher for giving me a job at all," has an ambition to bolster Northern Ireland as Mr Peter Walker has done in Wales.

He had already convinced the Treasury that Belfast should have an urban development corporation like industrial cities in other parts of the UK. Even more ambitious are his plans for a 130-acre site in the heart of west Belfast for



Belfast city centre, where browsing is a touchstone of normality

new shops, offices and workshops.

His enthusiasm is undented by the hurdles he faces. Despite the efforts of business people to portray the province as "normal," it is still the most troubled piece of western Europe. It is the only part of the UK classified as "underdeveloped" by the European Commission for the purposes of qualifying for help from the regional development fund.

With the help of Brussels, which will allocate Ecu 793m (£598m) to the province in the next four years, Mr Needham promises Londonderry a technology park and the province as a whole a telecommunications system equal to any in Europe. He plans a festival for Belfast in 1991 which he says will bring people on to the streets to celebrate, not to protest.

His civil servants' analyses are more sober. The economy's starting point – a mix of manufacturing satellite plants, under-invested private companies, and state-owned loss-makers – was not the most promising beginning to the attempt to bring conditions into line with the rest of the UK.

Northern Ireland has a low level of private services and a high level of public service employment – the very opposite of the Thatcher economic ideal. (The public sector expanded after Whitehall took over the running of Northern Ireland in 1972 and was the main reason for the relatively good performance of the economy in the 1970s).

But there have been some achievements this year. The Government has at last offloaded the state-owned albatrosses. Bombardier, the Canadian transport equipment manufacturer, has taken over Short Brothers, the Belfast aerospace company, at a net cost to the taxpayer of £750m, including the write-off of £390m in accumulated losses.

Unloading Harland and Wolff has cost another £500m, including writing off £400m debts. The shipyard has been sold to the management, supported by Mr Fred Olsen, the Norwegian shipowner, who will place orders for three tankers to be built at the yard. Between them, Shorts and Harland and Wolff had been costing the taxpayer some £100m a year in the last three years.

Another sensitive company – but not in the private sector – is James Mackie, a textile machinery manufacturer. It is a private company, managed by a trust on behalf of the 1,000 employees, and based in west Belfast, one of the districts where the impact of the troubles has been greatest. Like Shorts, it has good order books and good designs. But it needs between £15m and £20m investment in capital equipment. Mr Needham believes he has a "godfather" in the US group Lummus Industries. (His civil servants prefer the description of "white knight.") The deal would be dependent on government grants.

Meanwhile, however, Mr David Fell, permanent secretary at Northern Ireland's Department of Economic Development, is continuing his campaign to break local industry's culture of dependence on government. There are good companies, but many are family controlled and they frequently lack access to capital.

The independent Northern Ireland Economic Research Centre has shown that over 90 per cent of government assistance to industry since 1981 has been paid to established companies and not to incoming companies.

Industry no longer gets grants automatically. Like Britain, Northern Ireland has put all assistance on a discretionary basis in the last couple of years. And the proportion of grants to total project costs has come down from around 50 per cent to 30 per cent.

Operating costs are not higher in Northern Ireland than on the mainland. Low wage levels more than offset higher transport and energy costs. But productivity is lower.

Northern Ireland has one important resource which is in short supply in most of western Europe – young people. Many are well educated. Graduate supply outstrips the demands of business, even for those qualified in disciplines like business and software skills. The difficulty is to keep them in the province. Emigration is high. Unofficial estimates a couple of years ago put it at between 5,000 to 7,000 a year, but these are admitted to underplay the current position.

Outside investment is vital. The Industrial Development Board, set up in 1982, had a difficult time getting investors even to look at Northern Ireland, such was the appalling picture that was presented to the outside world.

But the board has had just had its best year. Montupet, the French car components manufacturer, has started recruiting for a new foundry in the former De Lorean plant in Belfast to make aluminium cylinder heads for Ford's new Zeta engine. Another new Montupet plant will make tools and dies for the foundry and other customers.

The South Korean group, Daewoo, has started to produce video recorders at Antrim. Barney Hong Kong has taken a plant to make a range of electronic products.

The new investments are a miscellaneous collection. There is no concentration on a sector, like electronics in Scotland, or bunching of Japanese consumer goods manufacture, as in Wales. But, given the over-dependence that the province had on artificial fibres in the 1970s, that may be no bad thing.

Service companies are being wooed with assurances on ease of recruitment, and low rents. Government offices which are being squeezed out of the south-east of England are another target. The Department of Social Security is transferring a few hundred jobs to Belfast, but, so far, there has been no big invasion of bank back-rooms. The problem is that Northern Ireland's target employers are the same as those of other UK regions, which can promote their "quality of life" with more conviction.

The IRA bomb in Kent on Friday underlined yet again how far there is to go to bring about an end to the troubles. Moves to strengthen the province's economy should at least bring practical benefits for its people, even if they do not provide a solution to the underlying problem.

LOMBARD

Exchange rates — some curious contentions

By Samuel Brittan

One of the most curious contentions that has ever come into public circulation is that Britain picked np its recent inflation problem as a result of shadowing the German Mark. The idea that a country with rising prices and e chronically weak currency can contract higher inflation by linking its currency to that of the most stabla country in Europe is so contrary to common sense that it is amazing that it was ever taken seriously.

Of course there were many British policy errors in the years leading up to the unplugging of sterling before the 1988 Budget. Bnt the better headline for these errors would be the "failure to shadow the Mark" rather than the shadowing of it.

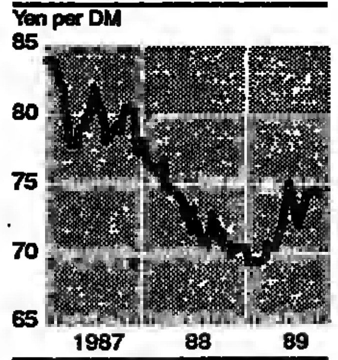
For if we try to avoid short-termism and look back over several years, the record is one of continuing sterling depreciation against the West German currency. After shooting up to a high of nearly DM 5 in the first year of tha Thatcber Administration, steriing embarked on a downward path with only a few temporary upward lurches. By the winter of 1981-82 it was down to DM 4.3 and in the course of 1986 it feli to under DM 2.8. Thus the so-called shadowing period at around DM 3in 1987-88 came too late and was undertaken at too low a rate — both a direct result of the earlier veto on EMS membership.

One can certainly regret that the battle over sterling came to a head over attempts to stop it rising during e temporary period of strength rather than to stop it falling. (The latter battle may nevertheless come). But this is a far cry from regarding any kind of link with the Mark as *per se* a cause of inflation when the opposite is the case.

A more subtle criticism that could have been made, but was not, was that the policy of shadowing the Mark took place when the German currency was relatively weak on world markets. This can be seen by plotting it against the yen — in order to avoid the effects of the dollar's gyrations. Even so it is extremely difficult to believe that a persistent policy of holding firm against the Mark would have been anything but beneficial for the course of British inflation. For most of Britain's trade is now with countries linkad directly or indirectly with the Mark. Indeed currencies linked formally or informally to the EMS now account for nearly 60 per cent of the official trade-weighted sterling index. In any case the Mark has recovered against the yen in the course of 1989. Any remaining weakness of the German currency is against the dollar; and that is hardly likely to continue for many years.

The D-Mark stabilises

Yen per DM



Other points could be made. An anti-inflationary purist might argue that, because the prices of UK non-traded services and property rise faster than tbose of traded goods, sterling ought to appreciate against the Mark in the longer run. An alternative policy would be to bave a floor against the Mark but no ceiling. Unfortunateiy neither of these more rigorous policies corresponds at all to what has happened or is remotely likely to happen.

The National Institute of Economic and Sociel Research's market-consistent forecast, for instance, shows an expected average annual depreciation of sterling of 5 per cent in the years ahead, outside the EMS. Can anyone really believe that eliminating, or even reducing this prospective fall would worsen the inflationary prospects, given Britain's position in a highly inter-related European and world economy?

A large part of the hostility to the policy of shadowing the Merk came from its alleged effects of boosting the British money supply as a result of the intervention to hold the pound down during its brief period of strength in 1987-88. If that were so, intervention to keep sterling up — involving the opposite process of selling foreign currency to buy sterling — must reduce the money supply and have a deflationary effect. It should thus be welcomed by the opponents of the earlier intervention. But of this there is little sign, as it is a natural human characteristic to want to have it both ways.

A similar point arises at the Group of Seven level, whicb is why I am writing on the subject following the G7 meeting this weekend in Washington. For it was alleged by some technical monetarists that recent worldwide inflationary pressures had their origin in the efforts to support the dollar — that is to buy dollars and sell Marks and yen — when the US currency was weak after the Louvre Accord of 1987. In that case recent intervention to prevent the dollar rising — that is selling dollars and buying other currencies — must have had a counter-inflationary effect in Germany and Japan. Yet I do not notice these arguments being pursued by the opponents of the earlier intervention.

The more prosaic truth is that a centrai bank tbat bought dollars at DM 1.6 two years ago and sold them in the last few weeks at around DM 2 has been making a handsome profit, even after allowing for interest differentials. Moreover this kind of intervention — buying dollars in 1987 and selling them in 1989 — has fulfilled the main Friedmanite canons in being both profitable and stabilising.

It is difficult to avoid strong ideological positions over currency intervention, as I know, having been on both sides of the argument. Nevertheless to deny all role to exchange rate policy is to be mesmerised by internal monetary mechanics and to fail to see the world economy as an inter-related system.

LETTERS

A referendum for the shareholders of BAT

From Mr E.C.S. Macpherson.

Sir, Most people involved in corporate finance were awaiting the outcome of the Takeover Panel's deliberations on the Hoylake/BAT bid with some interest. The result seems rather disappointing.

There is currently a workable framework for takeovers in the UK and this should be kept in place as far as possible, without dilution.

Nevertheless, surely it is the shareholders of BAT who should decide whether the management of BAT should continue to fight the bid or should be allowed to get on with running their company. Under the panel's ruling, the management could continue to be under siege for a very long time.

I would propose a referendum of BAT shareholders at the current stage of the bid. The Takeover Panel would then only allow the bid to proceed to an extended timetable if the shareholders wanted it.

Such a referendum would, as part of the process leading up to the vote, give the institutional shareholders an opportunity to make proposals to management and vice versa, in order to secure their continuing support and thus, one would hope, obtain improved value for their investment over the medium to long term. A vote in favour of the management would also be a signal that shareholders were unlikely to be interested in receiving a renewed bid in the short to medium term.

A failure to secure support from shareholders might in effect be a vote of no confidence in the management tactics of attempting to frustrate the bid by extensive lobbying in the US. It could also be interpreted as an instruction to stop defending the bid in ways not connected with its financial merits.

The huge defence costs now being run up are a benefit to nobody except the advisers and should be curtailed as soon as possible or, at the very least, be approved by shareholders.

E.C.S. Macpherson,
3i plc,
91 Waterloo Road, SE1

More help for the unemployed

From Mr Peter Ashby.

Sir, Michael Meacher misses the mark in trying to undermine the credibility of the Government's employment training (ET) programme. His claim, reported in "Minister rejects claims of job scheme re-launch" (FT, September 20), that the Government is about to re-launch ET could deter ministers from making changes that might be misrepresented by Mr Meacher.

Of course, ET could change significantly when control of the programme passes to the new training and enterprise councils from next April. There could be many different versions of ET more closely tailored to local needs – ET Marks 1 to 25, as it were – rather than the single national programme we have now.

While the Government is right to give TECs a fairly free rein in determining the content of employment training, it would be a big mistake if it were to fail to set more ambitious targets for bringing the very long-term unemployed into the programme.

It is encouraging that one in every three places on ET is now filled by people who have been unemployed for two years or more. This ratio is still too low. TECs should get bonus payments for every extra place they fill from among the two-year-plus unemployed.

TECs can take on the job of providing better, more consumer-led programmes, but they cannot be expected to act as the nation's moral conscience. It is for the Government to ensure, through the targets it sets for TECs, that those at the back of the jobs queue receive the lion's share of support provided from the public purse.

Peter Ashby,
Full Employment UK,
4 Europa House,
St Matthew Street, SW1

Public funding for Tunnel links

Sir, The Government has only itself to blame for a dilemma of its own making ("High-speed Channel link risks derailment," September 15). In its haste to come to an agreement over the tunnel itself, the Government failed to give sufficient thought to the transport infrastructure that would be required to serve it. When it finally dawned that a great deal would have to be done to upgrade that infrastructure, particularly our railways, in line with what is already standard or committed in France and Germany, the Government placed the responsibility entirely on British Rail and the private sector.

The folly of this can now be seen in the current impasse over the high-speed link – the costs of which have escalated beyond the ability of BR and the interested private consortia to fund it unaided. But the project cannot be shelved. It will provide a vital link to Europe and, without it, existing rail links – which already have to take the south-east's heavy commuter traffic – will rapidly become saturated. The road links to the tunnel will also become further congested.

It is time the project was recognised as being essential to the national interest; it is time for the Government to act. One way or another we must give those charged with building and operating the line guarantees that the unavoidable extra costs will be underwritten. It will be in the Government's interest to drop its opposition to the idea for a European transport infrastructure fund which has been proposed to support precisely this sort of project.

Chris Gossop,
Deputy Director
Town and Country Planning Association,
17 Carlton House Terrace, SW1

Haste makes waste in the single European market for services

From Mr P.J. Turvey

Sir, The value for money of British life insurance policies is under threat from proposals which may be rushed out of the Commission in Brussels to achieve a single European market by 1992. Eric Short's articles in the FT ("Actuaries told 1992 may reduce their job status," September 19; "Actuaries warned of EC 'panic,'" September 20) refer to this only briefly.

The danger is that there will be too little time, and too few qualified people, to develop proposals which accommodate the best features of the widely varying supervisory arrangements in the EC member countries. The only way to meet the deadline may prove to be to force through by majority vote proposals based on the relatively illiberal regimes found in most parts of continental Europe.

A European regulatory structure of this kind is likely to threaten the cheap term life insurance premiums currently available in the UK. It would stifle the innovation of the flexible and unique policies that make Britain a world leader. Investment in equities and property might be restricted to the proportion permitted elsewhere in Europe, reducing prospective returns to policyholders. This could also have adverse consequences for the UK capital markets, where life companies are major players.

The urgent problem is to explain to our European partners that our regulatory system provides equivalent – though not identical – protection for the consumer when compared with their systems, and to demonstrate that it provides acceptable security for their nationals if they choose to buy policies issued by British companies. Equally, we need to understand continental regulatory systems better in order to recognise their positive characteristics.

At the recent UK actuarial convention in Harrogate, it was agreed that actuaries have a professional duty to try to protect the interests of all European consumers – not just the British. The priority is to establish an effective two-way communication on this subject both with other members of the EC and with the European Commission, so as to ensure that all concerned with negotiations leading to freedom of services in 1992 understand the risks of reaching an inadequate compromise in order to meet the very tight timetable.

P.J. Turvey
Mercer Fraser,
Telford House,
14 Tothill St, SW1

FINANCIAL TIMES

Monday September 25 1989

James Buchan on Wall Street

The luxury of Buffett's convertible

IN America today, where people happily borrow at 16 per cent to finance businesses paying out 5 per cent, it is worth considering the unusual case of Warren Buffett. Mr Buffett, who is chairman and chief owner of a company based in Omaha, Nebraska called Berkshire Hathaway, gets money at 4 per cent to fund a business that last year returned 20 per cent.

Last week, with yields in the junk bond market still usuriously high because of the crisis at Campeau, Mr Buffett effortlessly borrowed $400m at very low interest though a highly sophisticated issue of bonds devised by Salomon Brothers. The effective interest rate, Mr Buffett said, is probably only about 4 per cent.

Last week's Berkshire financing poses two pressing questions for the student of Wall Street. First, what has Warren Buffett got that Robert Campeau and the other junk bond issuers have not got? And what is Mr Buffett going to do with his money?

The first question is easy to answer. The convertible bond is the first opportunity in 24 years for institutions to buy new stock in Berkshire Hathaway. This is an extraordinary company by any standards.

At the heart of it is an insurance operation, which pulls in income from premiums which Mr Buffett then invests. Over the years, Mr Buffett, who is 59, has bought seven companies which seem to belong to a more innocent era of American business, a sort of corporate Norman Rockwell cartoon. They make vacuum cleaners, candy and uniforms and such things and are run by people with names like Rose Blumkin, Chuck Higgins, the Feldmans, Stan Lipsey.

Mr Buffett also has large portfolio investments in more famous companies, such as Coca-Cola or Capital Cities/ABC, and has lately developed a minor line as a sort of gentleman security service. Companies under threat of takeover sell him preferred stock at high interest rates which is then convertible into enough stock to deter a raider.

Mr Buffett's Midwestern courtesy and wit, his aversion to leverage and his respect for the business people who work for him would long ago have earned Wall Street's withering scorn were he not quite brilliantly successful. Since Mr Buffett took the helm 24 years ago, Berkshire Hathaway has earned its stockholders 23 per cent a year compounded. The company's equity capital, which was $22m in 1964, was $3.41bn at the end of last year. So far this year, the operating businesses have done well, Mr Buffett said, and even the insurance operation is making money though only by being very careful about the risks it insures.

So eager were institutional investors to get in on this act, they were willing to forego cash interest on the bond and see it accrue only at the low rate of 5¼ per cent a year. According to Mr Victor Cohn at Salomon, Berkshire will redeem the bonds, which are 15-year zero coupon notes, with all their accrued interest after five and 10 years or in the frightful but unlikely event of Mr Buffett losing control. The bonds can also be exchanged for Berkshire stock but only if the stock rises quite handily.

As Mr Buffett explained with great patience on the telephone from Omaha, there is a tax saving on the interest even though it is not paid out in cash. This reduces Berkshire's effective cost of funds from 5½ per cent to, he thought, about 4 per cent. And even if Berkshire's stock rises enough and the institutions do convert, they will dilute the profits and assets that belong to Berkshire's 7,000 current shareholders by only 3¼ per cent. "I do not like issuing shares and I am reluctant to borrow money," Mr Buffett said.

Mr Buffett will not answer the second question. What he does say could well be a lesson to the 16-per-cent guys in both prudence and modesty. "We raise money and we buy things," he says, "but we keep the two operations separate. We keep the liability side and the asset side distinct. If somebody gave me money at 1 per cent, I still wouldn't change my standards on the asset side by one little bit. And its hard to find things to buy. Last year, we bought $1bn worth of Coke, but there's been nothing since then we've liked as much. Unfortunately, I do not have 10 ideas every day."

But what about the stock market? Is it too high or too low? Are there any bargains left?

"It's not as hard as two years ago, but it's hard."

ARAB LEAGUE CEASEFIRE TAKES HOLD IN LEBANON

Beirut guns silent after six months

By Lara Marlowe in West Beirut

LEBANON'S latest war appeared to be over at the weekend, and traces of normal life began to return to the capital as an Arab League ceasefire took hold after six months of almost unremitting artillery bombardments.

Beirut international airport reopened yesterday after a closure of 195 days. Gunmen fired into the air in celebration and people stood on balconies cheering as a cargo aircraft swept over the devastated city and landed at the airport.

The Trans Mediterranean Airways plane was the first to land since the airport, Lebanon's only commercial air link with the world, closed on March 11 at the start of artillery battles.

Ships sailed into the Christian-run port without being shelled by Syrian artillery, and all crossings between the Christian enclave and the rest of Lebanon were opened.

The streets of the city remained quiet as most of the more than 1m refugees who fled the bombardment waited outside the capital to see if the ceasefire would last.

The ceasefire with the co-operation of Syria's allies in Lebanon and of Gen Michel Aoun, the Lebanese Christian leader, is a triumph for the Arab League after months of abortive mediation. Gen Aoun decided to accept the peace plan with the greatest reluctance, and evidently under heavy pressure not just from outside powers such as France but also from other leaders of Lebanon's Christian community.

The truce took hold with only minor violations on Saturday, the day after Gen Aoun accepted the Arab League peace plan for Lebanon – thus effectively abandoning his "war of liberation" against Syria's 40,000 troops in Lebanon.

The security committee of Lebanese army and militia representatives established by Mr Lakhdar Ibrahimi, a senior Arab League envoy, to supervise the ceasefire held its second meeting in as many days.

As the next step in the Arab League's seven-point peace plan, Lebanon's parliament is supposed to meet next Saturday to debate the "document of national reconciliation" put forward by the Arab League.

Mr Hussein Husseini, the speaker of the parliament, has said that he foresees two subsequent meetings within the following two weeks, by which time a consensus will have been reached on the identity of Lebanon's next president. The Arab League plan calls for the election of a president, the formation of a government and the enactment of political reforms in rapid succession.

According to the security plan, Syrian troops in Lebanon will then assist the new Lebanese Government in extending its authority over the country. And within two years of the election and reforms, the Syrians are supposed to withdraw to positions along the Mount Lebanon range and in the Bekaa valley. Syria and Lebanon will then agree on the size and duration of Syria's military presence.

Significantly for Syria, the plan says Lebanon will "not allow itself to be a passage or a sanctuary for any force, state or organisation aiming to undermine its security or Syria's security" – a reference to the Maronite Christians' past alliances with Syria's Israeli and Iraqi enemies.

In practice, the peace process is unlikely to go so smoothly. Many Lebanese deputies are living abroad and are not yet willing to return. The Arab League suggested a meeting in Algiers, or in Jeddah or Riyadh in Saudi Arabia, but the Christians still refuse any venue outside Lebanon. Shia Moslem deputies are unlikely to wish to travel to Saudi Arabia after the beheading there last week of 16 Kuwaiti fundamentalists.

An early indication of the difficulties ahead came yesterday, when Syria's two most important Lebanese allies, Mr Walid Jumblatt and Mr Nabih Berri, the Druze and Shia Amal leaders respectively, rejected the Arab League's reform plan.

Opec split over failure to hit target price

By Steven Butler in Geneva

OIL ministers from the Organisation of Petroleum Exporting Countries met yesterday to try to bridge differences over whether to raise Opec's production ceiling from 19.5m barrels a day.

Delegates from some of the poorer and more indebted Opec nations were bitter over failure to achieve the Opec price target of $18 a barrel despite strong worldwide demand for crude oil, and there was resentment over the dominating role of the big Gulf producers.

The Opec basket of crude oil averaged just $15.86 a barrel in August. A majority argues that an increase in the ceiling must come only after the price target is reached.

An official report from the Opec Secretariat, delivered in closed session to the ministers, blamed production in excess of the Opec ceiling for failure to reach the target.

Current Opec production is estimated at about 22m b/d, with Kuwait and the United Arab Emirates accounting for roughly 2m b/d of the excess. The report said Opec could achieve its target price during the next six months with a ceiling between 21m and 21.5m b/d, provided all members stuck to their quotas.

All 13 Opec countries were represented at the talks, eight as members of the ministerial monitoring committee and five as observers. The Committee has the authority to lift the Opec production ceiling, but not to reallocate quota shares among the members without calling an extraordinary meeting, which is seen as unlikely.

Kuwait, however, is demanding that its quota be lifted from 1.093m b/d to 1.35m b/d before any increase in the ceiling is distributed proportionally among all members. Kuwait had earlier pledged to hold production to 1.35m b/d, but is now producing close to 2m b/d.

"The thing about the Gulf countries is that no matter what you do to appease them, they still do whatever they want to do," said one delegate.

The resentment against Kuwait and the UAE is intense because, as the richest of the Opec countries, they least need extra revenue. Kuwait argues that it must produce more because of its higher capacity and because of past sacrifices.

Iraq has quietly warned some delegates that it may be forced to increase production to boost revenues if other countries continue to overproduce. Iraqi production capacity is expected to rise from about 2.8m b/d at present to 3.5m b/d by the middle of 1990.

Chances of reaching a compromise were also seen as being hurt by the absence of Mr Hisham Nazer, the Saudi minister, who is recovering from gall bladder surgery in the US. Some delegates believe the Saudis have adopted a low key approach to the meeting and do not expect much to result from it.

Carli urges new ties after BNL affair

Continued from Page 1

ian secret service report which Prime Minister Giulio Andreotti was handed last week and which apparently goes into some detail about how BNL money may have helped finance Iraq's Condor 2 ballistic missile project.

He also declined to elaborate on his parliamentary statement that BNL made improper loans to countries other than Iraq, although it has been confirmed independently that additional funds from Atlanta went to Cuba, Venezuela and the Soviet Union.

"I absolutely refuse to answer any detailed questions about BNL," Mr Carli explained, stressing the information he had was too fragmented and he would make disclosures only in the Italian Parliament.

"The world is well aware that crises like this one can happen," he said when asked whether the image of Italy's banking system had been damaged by the affair.

The Italian Treasury Chief's comment was: "In this system, it is ever more necessary to build close ties and to achieve more co-ordination among supervisory authorities."

Mr Carli stressed his "message" to this week's meeting of the International Monetary Fund in Washington was: "I do not feel we should react to this crisis by repudiating a policy I have believed in since I was a boy, namely an open approach to lending, to markets and to international risk."

Unlike most Italian Cabinet Ministers, Mr Carli, a Christian Democrat, is not afraid of being unpopular. He has nonetheless found little political support for his frequently repeated views that Italy's largely state-controlled banking system should be privatised, starting with BNL.

He has been singled out for criticism by opposition politicians because of his former Fiat directorship, his close friendship with the Agnelli family and his violent opposition to the insertion into planned anti-trust legislation of a clause restricting industry from owning more than 20 per cent of a bank.

Mr Gianni Agnelli, chairman of IFI and Fiat, said on Friday he would not name a new boardmember of his IFI family group to replace Mr Carli, who resigned last July when he became Treasury Minister.

Mr Carli, talking about his hopes for privatising state banks, pointed out that the second European Community directive does not specify the nature of bank shareholders.

He also said he would support an Anglo-Saxon style public offer of shares of state banks and claimed that his idea of privatisation "does not mean handing control of state banks over to one or two groups." Mr Carli said the first step would be to approve laws that would transform state banks into joint stock companies.

Mr Carli's view that industry should be allowed to control banks is in sharp contrast with that of Mr Carlo Azeglio Ciampi, the governor of Italy's central bank, who has said he fears a conflict of interest could emerge if industry were allowed to own banks.

Mr Carli said he does not believe that recent history shows any dangers in the case of industry controlling banks.

In his first ever reply to accusations by opposition politicians that his longstanding Fiat and Agnelli company directorships have both influenced his decisions on the banks-and-industry issue and made him less than his own man, Mr Carli replied: "All experiences leave a residne and the deepest experience of my life is the construction of a market economy. I strongly believe that political freedom without a market economy is not possible and vice versa."

Superpower talks: Soviet foreign minister Eduard Shevardnadze and US counterpart James Baker exchange new accords

Bush to unveil plan to cut chemical arms

Continued from Page 1

breaking the 15-year deadlock in nuclear testing talks, and in chemical weapons. There was a lot of criticism in advance that I hope will be absolutely gone now." Criticisms that the US has gone slowly were, he said, "unwarranted."

Similarly, Mr Brent Scowcroft, the president's national security adviser, sought to spotlight a new momentum in US/Soviet relations by pointing to "a remarkable lack of mutual recrimination."

Mr Bush's chemical weapons initiative is aimed to further blunt these charges. But he seems certain to come under greater pressure.

Senator George Mitchell, the Democratic Majority leader, yesterday described the Wyoming summit as "positive" but argued that the Bush administration should do more in announcing a temporary waiver of the Jackson/Vanick law limiting bilateral trade and by making a clear unequivocal statement that provided the Soviet Union undertakes internal reforms it should be welcomed into western international institutions.

The Soviets also announced on Saturday that they were willing to separate the vexed question of sea-launched Cruise missiles from the text of the START agreement.

While this offer has not allayed US concern about verifying limits on SLCMs, officials agree it could spur progress on a START accord.

Furthermore, the Soviets agreed unconditionally to dismantle their radar station at Krasnoyarsk and they proposed an international conference on conventional weapons aimed at hoosting efforts to reach agreement within President Bush's six to 12-month timetable.

Mr Baker said he was pleased with progress and pointed to several tangible agreements on arms control.

These include a full verification regime for previously-agreed but unratified nuclear testing treaties; a memorandum of understanding on a chemical weapons data exchange and verification tests; an umbrella accord on START verification and stability measures; an accord facilitating travel for US and Soviet Eskimos in the Bering Straits and a joint interpretation on rules of international law governing innocent passage.

Mr Baker also revealed that, in relation to Soviet nationalities' problems in the Baltic and elsewhere, Mr Shevardnadze had specifically rejected the use of force as not being a feasible alternative and said this view was shared by the Soviet leadership.

Mr Baker supported self-determination and autonomy for these Soviet republics but "not in the context of major instability

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Dubrovnik	F	25	77	Malta	F	27	81	Rhodes	S	26	79
Algiers	S	28	82	Edinburgh	C	18	64	Manchester	F	18	64	Rio de J'o	C	36	96
Amsterdam	S	18	64	Faro	S	26	79	Manila	F	32	90	Rome	S	25	77
Athens	S	26	79	Florence	F	25	77	Melbourne	S	17	63	Salzburg	C	17	63
Bahrain	S	33	91	Frankfurt	C	14	57	Mexico City	C	24	75	San Francisco	C	14	57
Bangkok	F	32	90	Funchal	C	23	73	Miami	S	26	79	Seoul	R	23	73
Barcelona	F	27	81	Geneva	C	17	63	Milan	F	23	73	Singapore	F	31	88
Beirut	•	-	-	Gibraltar	F	23	73	Montreal	F	5	41	Stockholm	C	17	63
Belfast	C	18	64	Glasgow	C	17	63	Moscow	S	21	70	Strasbourg	F	17	63
Belgrade	S	24	75	Guernsey	F	19	66	Munich	C	15	59	Sydney	S	18	64
Berlin	C	19	66	Helsinki	C	13	55	Nairobi	F	27	81	Taipei	F	33	91
Biarritz	S	23	73	H. Kong	F	29	84	Naples	F	27	81	Tangier	F	30	86
Bombay	F	32	90	Innsbruck	S	21	70	Nassau	•	-	-	Tel Aviv	S	29	84
Bordeaux	S	21	70	Inverness	S	19	66	New Delhi	S	34	93	Tenerife	S	25	77
Brussels	F	17	63	Islamabad	F	29	84	New York	F	27	81	Tokyo	F	24	75
Budapest	C	22	72	Istanbul	F	24	75	Nice	S	24	75	Toronto	S	2	36
B. Aires	F	19	66	Jakarta	C	31	88	Nicosia	S	28	82	Tunis	F	29	84
Cairo	S	31	88	Jersey	F	19	66	Oporto	S	20	68	Valencia	F	26	79
Cape Town	S	18	64	Jo'burg	S	22	72	Oslo	S	18	64	Venice	S	22	72
Caracas	F	27	81	Lima	C	20	68	Paris	F	19	66	Vienna	F	22	72
Casablanca	F	24	75	Lisbon	S	23	73	Peking	S	23	73	Warsaw	S	22	72
Chicago	S	12	54	London	C	18	64	Prague	C	19	66	Washington	S	9	48
Cologne	C	18	61	Los Angeles	C	16	61	Reykjavik	R	4	29	Zurich	C	14	57
Copenhagen	F	17	63	Luxembourg	F	16	59								
Corfu	R	26	79	Madrid	S	24	75								
Dallas	•	-	-	Majorca	F	26	18								
Dublin	F	18	66	Malaga	F	25	77								

Readings at mid-day yesterday

C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

THE LEX COLUMN

Weighing up the utilities

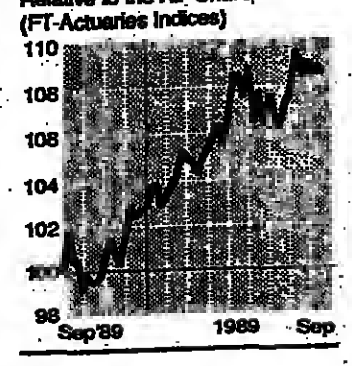
As the sale of water looms closer, with electricity dimly visible behind it, the stock market is beginning to ask itself what all these utilities are going to do to the market indices. At least two, perhaps three of the water companies will qualify by size for the FT-SE100; more important, so will both electricity generating companies and several of the distributors. Including British Gas, Telecom and BAA, the privatised utilities are going to have a market value of something close to £50bn, or nearly 15 per cent of the FT-SE.

It might be thought that this would skew the index towards an artificial stability, and make other stocks seem volatile by comparison. The reality is a little different. British Gas and Telecom have in fact been fairly volatile so far, mostly because of political factors such as changes in their regulatory regimes. This will certainly apply to the new utilities as well; and all of them, of course, will respond equally to a threatened change of government.

Given the FT-SE's role as a basis for derivative instruments, it might be argued that the index should be widened to reduce the influence of the big privatised battalions. This is probably unnecessary; the FT-SE already represents 71 per cent of the All-Share by market value, and will account for more when water and electricity are included. The utilities are coming to be a powerful force in the market as a whole; if the result is fresh political uncertainty, that is a fact of life.

Investment Trusts

Relative to the All-Share (FT-Actuaries Indices)



rights issue last week.

Trusts which specialise in illiquid overseas markets can obviously be seen as adding value, in the form of specialist knowledge plus UK settlement, for institutional investors; and investment trusts represent the only realistic means of entry into such markets for private individuals. In addition, closed end funds are at a distinct advantage if markets experience sudden downturns; there is no need to make fire sales of stocks to meet redemptions.

Whether this represents a new dawn for the investment trust sector is harder to tell. The reduction in average discounts from 23 per cent to 15 per cent over the last 18 months reduces the pressure for further restructurings in the sector. Private clients are slowly working out that investment trusts are their most cost-effective and low risk for equity investment, although they may be seduced by the water advertising blitz into adding another utility to their Gas/Telecom portfolio. The saving grace for the industry will be when private investors rediscover their enthusiasm for the UK general funds, which have for years had little attraction for the institutional investor.

Investment trusts

The number of new corporate equity issues is limited at the moment and the market's enthusiasm for equity investment is still high, so perhaps the spate of paper from investment trusts in the last few weeks is unsurprising. The round of takeovers and unitisations which occurred last year may have helped in reducing a perceived oversupply in the investment trust market, but the demand side is more important.

The current favourite for launches is the South East Asian markets, which witnessed a plethora of issues linked to individual markets last year. The new general Asian funds seem able to go quickly to a premium to assets and European trusts have also seen the discounts vanish, allowing F & C Eurotrust to take the unusual step of a

Global issues

There is something very enticing about the notion of companies issuing a single prospectus, acceptable to regulators everywhere, for equity offerings around the world. Judging from a report published at last week's Venice conference of the International Organisation of Securities Commissions (Iosco), the idea is closer to realisation than might be expected.

The process could be derailed if the regulators try something too ambitious, such as global harmonisation of disclosure rules or accounting standards. Doing it regionally – within the EC, say – might be feasible; anything more could bog discussion down. The other way forward - a system of reciprocity, in which regulators recognise prospectuses issued under each other's rules - looks a better bet. This is because the US Securities and Exchange Commission remains such a powerful influence worldwide.

According to Iosco, since 1984 some $35bn has been raised from 13 equity issues made simultaneously in different territories, each case presenting potential conflicts between national regulations and market practices. But the most common regulatory problem has been bridging the gap between UK and SEC requirements.

This is hardly an ideal situation. An obvious example is the SEC requirement for issuers to show accounting figures restated according to US GAAP. This is usually feasible, after some effort, for UK companies. It is not necessarily possible at all for some European companies.

One way forward, suggested by Iosco, is the formulation of internationally accepted accounting standards by the International Accounting Standards Committee. But if this involves clashes with US practice, such harmonisation is likely to take years to achieve, given the power of US accountants. The best route is to try to persuade the SEC to move further towards fully recognising the validity of other peoples' rules for equity issues, without having to harmonise them.

Mortgage rates

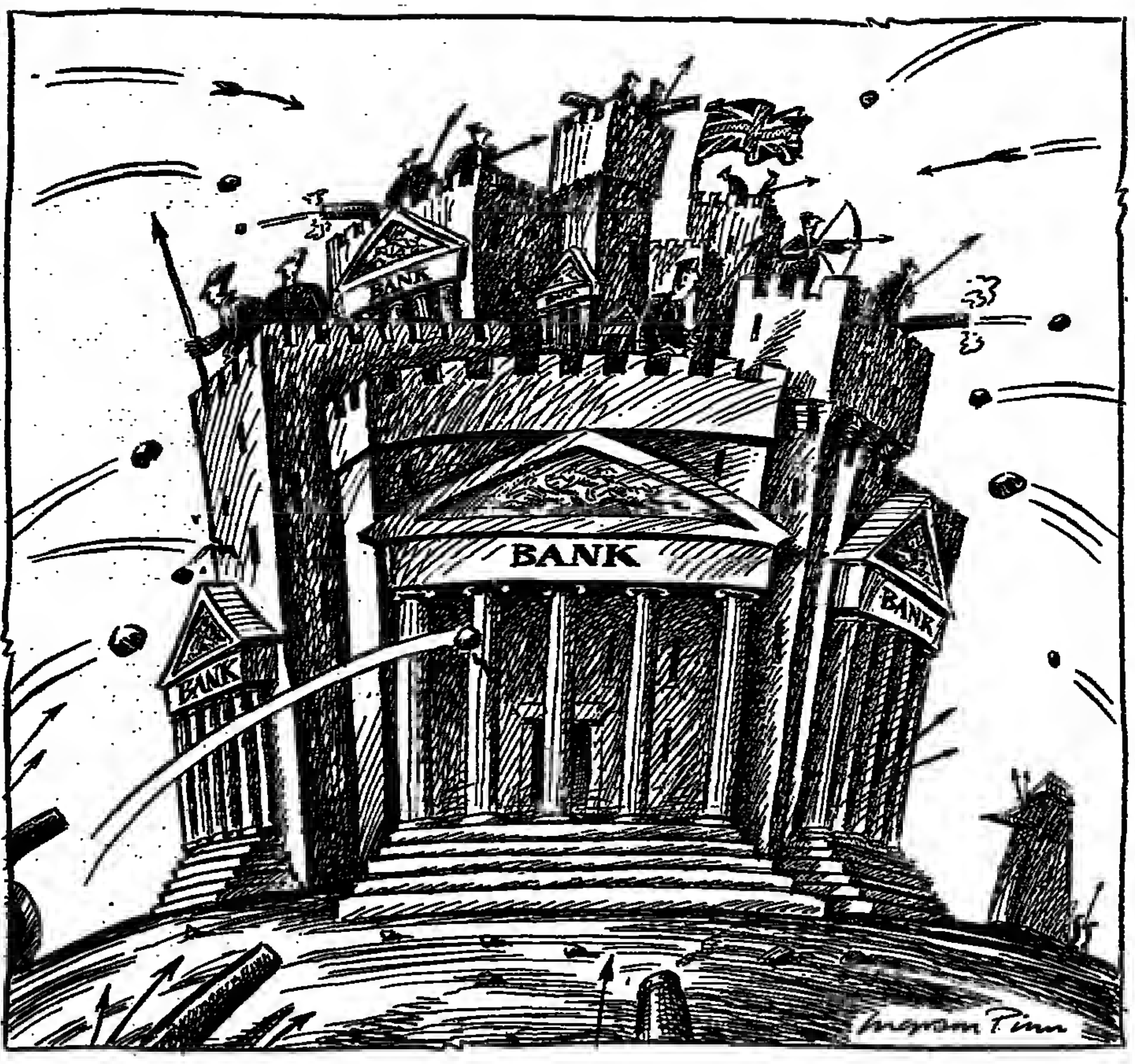
If higher mortgage rates are to be avoided, the building societies will have to walk a fine line. Competition for savings is intense, as illustrated by Midland's recent rate increase. And the latest monthly receipt figures were fairly dismal, given that the societies should have benefited in part from the £500m repayment of national savings. But though mortgage rates have lagged base rates for some time, a rise is not inevitable. Societies appear to be concentrating on mortgage demand, having recently regained market share with reduced rate offers. They may hold down both mortgage and savings rates until around November, when a springtime cut in base rates might be foreseeable. It could just be a happy Christmas for homeowners.

SECTION III

FINANCIAL TIMES SURVEY

Winter offers a harsh operating climate, with high interest rates and business likely to slow down, writes **David Lascelles**. At the same time, the high-street market is changing, and the European single market will have profound implications for the UK industry.

Anything but dull



UK Banking

CONTENTS

Editorial production: Martin Davies

IT IS a mystery to most people in the banking industry why those outside it find it dull.

To be sure, a cynic would have some difficulty describing banking as dull this year: the County NatWest/Blue Arrow scandal, upheavals in the City, huge Third World loan losses – all have enlivened the front pages of the press and caused much controversy in the process.

But events like these are not exactly what bankers have in mind when they talk about the excitement of banking. They see scandals and losses as distressing developments, but hardly typical of their business as a whole, and certainly not indicative of the forces that are really driving it forward.

Any senior banker, asked to list the things that he finds challenging right now, would be much more likely to mention weighty matters like structural change, intensified competition, the EC's single market, capital adequacy, the effects of the Lawson squeeze, and bugbears like The Japanese Threat.

All these are bearing down on UK banks from one direction or another, and forcing them out of the comfortable ruts which earned them the reputation of being dull in the first place.

Even so, the events that have hit the headlines this year cannot easily be dismissed.

The Blue Arrow scandal was, in its way, symptomatic of the stresses caused by profound changes in one important part of the banking industry: investment banking.

NatWest, in its eagerness to be a major player in this market, as corporate financier and dealer in securities despite its lack of experience, allowed itself to be sucked into a market-rigging scandal of major proportions.

But even though the resulting uproar led to the resignation of Lord Boardman, its chairman, and three executive directors, NatWest still intends to remain in investment banking. Mr Tom Frost, the chief executive, subscribes to the belief that NatWest must be able to offer all these services to be a top bank.

Whether that belief is justified is still too early to say. Of all the clearing banks which went into investment banking at the time of Big Bang in 1986, two, Midland Bank and Lloyds Bank, have effectively pulled out without, they claim, causing themselves any damage. But Barclays is making a success of it, and forcing NatWest to keep up.

NatWest's decision to stay with it was bad news for the rest of the City, where capacity in the securities markets is still excessive, leading to losses of money and jobs. The big merchant banks, like Kleinwort and Warburg, have seen their earnings under pressure, though, thanks to the boom in takeovers, their fees earnings are still considerable. Only the smaller, more specialised merchant banks are making any headway at the moment, from which some people in the City are deducing that the scope for big-scale investment banking may be limited.

The other big item of bad banking news was the fresh round of Third World debt provisions, which the clearers made at the interim stage in August. This forced the most heavily exposed of them, Midland, into a £531m loss. But the heavy charge was, in a way, good news since it now leaves all the clearers strong enough to withstand the dramatic (albeit unlikely) event of a mass default by Third World countries, which is why they decided to do it. Sir Kit McMahon, Midland's chairman, described the provisions as "the beginning of the end" of his bank's entanglement with Third World debt.

The deeper message in the results was the effect of high interest rates on the banking business, and the impact of competition on the banks' traditional high-street markets. These showed that the clearers are under pressure, and that the surging profits of the last couple of years may, in retrospect, look like a golden age, unlikely to return.

But the clearers are also in a combative mood, which owes much to the overwhelming position they still occupy in their home market, and their determination to hang on to it.

The high cost of money, which has prevailed in the UK all this year, had less of a dampening effect on loan growth than had been expected, with assets growing by nearly 20 per cent. But the personal sector showed a sharp fall-off, particularly in housing finance. By contrast, company lending held up well, though this could be partly due to a rise in distress borrowing.

The clearers' decision to extend opening hours and introduce more competitive products, like interest-bearing current accounts, are also producing new costs and forcing the banks to find fresh savings elsewhere. Generally, bankers are not looking forward to the coming winter. With interest rates now likely to remain high well into next year, business will slow down and bad debts will start rising.

Trading conditions in both the domestic market and world wide will remain "tight", forecasts Mr John Quinton, chairman of Barclays, the biggest clearer.

The changes going on in the British banking high street were most dramatically symbolised by the conversion of the Abbey National building society into a bank, in June, and its flotation on the Stock Exchange. Although other societies have yet to announce firm conversion plans of their own, the Abbey's move suggests that the long-awaited mobilisation of building society capital is now underway. Structurally, too, the Lloyds Bank-Abbey *Life* tie-up highlighted the growing convergence of banking and life insurance.

One sign of just how fast the high-street market is now changing was the publication of the Monopolies and Mergers Commission's report on the credit-card industry. It was commissioned just over two years ago, at a time when the clearers ran the cosiest of cartels. But by the time it came out in August, the cartel had already been so decisively smashed by the clearers' own competitive vigour that the Commission was left with little to criticise.

And this pace will continue as more technologically-driven changes come to the boil. This autumn Eftpos, the banks' cashless shopping experiment, comes into operation, and home banking schemes are proliferating.

These innovations may require matching changes in banking law and practice, as recommended by the Jack Committee which completed its far-reaching investigation last spring.

The strength of the home market over the last two years gave bankers every reason to switch their focus away from foreign markets. But international strategy is forcing itself on their attention, particularly in Europe where the single market has increasingly profound implications for UK banking.

The UK market has been identified by continental banks as one of the more attractive for expansion once the barriers come down after 1992. This has been another factor forcing the clearers into a more aggressive stance.

The most likely means of foreign entry would be through acquisition. The clearers' decision, therefore, to entertain offers for their jointly owned regional subsidiary, Yorkshire Bank, creates an important opening. Also likely might be an agreement by a building society to demutualise, as a prelude to foreign takeover, a process which now seems to be getting underway in the UK life insurance business.

So far as strategic moves on to the continent are concerned, UK banks have been more cautious. Many are already well represented there, and are hoping to build on their market presence, but they have made only piecemeal moves towards 1992.

The big question is whether any British bank will either make a major continental acquisition, or itself be bought up by another EC bank. Rumours of deals cause frequent flurries on the stock market.

The acquisition possibilities opened up by 1992 will oblige the Bank of England to reformulate its present objection to foreign takeover of a clearing bank. Nationality will not be a legitimate reason for turning down an EC bank bidder for a UK clearer under the single-market rules. The Bank has, however, been a enthusiast of the single market, because it sees the new structure both offering London a chance to enhance its position as Europe's major financial centre, and enabling the Bank itself to play a wider Community role.

Interest-rate rises have not discouraged credit growth

Paradox for the Treasury

□ There are two reasons for bank lending's ebullience despite an economic slowdown elsewhere, says Ralph Atkins

IF 1989 was supposed to be the year when rapid economic growth was brought to heel, Britain's banks have yet to feel the pinch.

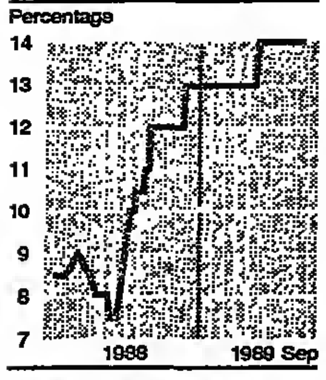
To the delight of the money lenders – but embarrassment of the Government – steep rises in interest rates appear to have done little to discourage credit growth.

The Treasury has found itself faced with a paradox. On the one hand, indicators of the "real economy" suggest that higher base rates are working: consumer spending has flattened, turnover in the housing market has tumbled, manufacturing output has slowed. On the other hand, bank lending is still growing at a stubbornly high rate.

Ironically, the Bank of England announced in June that it would no longer compile statistics for M3, the money-supply measure which concentrates on bank lending and has epitomised the monetarist experiment of the 1980s.

UK Banks' base rate

Percentage



The official explanation was that the transition of the Abbey National from building society to bank would distort the figures.

For the cynics, however, its demise removed an indicator that was continuing to flash unwelcome inflationary alarm signals. At the time of its abolition, M3 was growing at an annual rate of more than 20 per cent – almost exactly the same rate as a year earlier. More recent figures for M4, which also includes building society deposits point to only a modest – if any – deceleration.

With hindsight, this continuing strength should have been expected. City economists have put up a number of reasons why an economy that is beginning to slow after years of strong growth should see an upswing in bank lending.

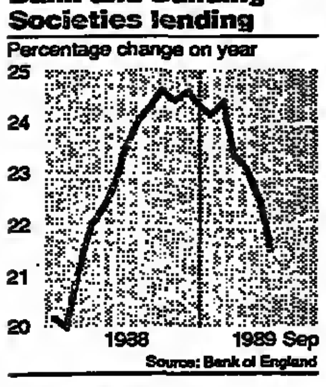
What is less clear is whether lending will go in the 12 months ahead. While some are forecasting a sharp slowdown, others believe the fast momentum will continue for some time.

If history provides any lessons, there must be a high possibility of continuing strong growth. In the early 1980s, bank lending continued to grow strongly even while total industrial production was actually falling. In 1981, annual growth in M3 was well into double figures while industrial production fell by more than 3 per cent.

This time round the slowdown in industry is not even expected to be as sharp. Mr Peter Spencer, UK economist at Shearson Lehman Hutton, said: "There is no reason to think that we won't have a similar embarrassment on the broad money aggregates."

Bank and Building Societies lending

Percentage change on year



Source: Bank of England

There are two explanations for bank lending's ebullience despite evidence of an economic slowdown elsewhere are:

□ First there is so-called "distress borrowing". Here companies and individuals – hit either by high interest rates or slower demand, or both – are forced to increase borrowing in order to maintain a constant level of expenditure. Profits and disposable incomes are affected by the squeeze that Mr Lawson has engineered.

Companies may also have built up involuntary stocks, requiring additional finance – a classic end-of-cycle phenomenon.

The sensitivity of companies to high interest rates has intensified, with the corporate sector on course to operate with a financial deficit for the second year running, according to estimates by the Bank of England.

□ Second has been the apparent reluctance of the corporate sector to issue equity or fixed-interest securities to finance investment – perhaps because of their comparatively high cost. Instead, companies have turned increasingly to bank borrowing as an alternative source of finance.

And investment continues to grow strongly. Last year it rose by 12 per cent, and almost certainly continued at a similar pace in the first half of this year.

Support for such arguments comes from Bank of England figures for bank advances – the latest of which was published for the three months to May.

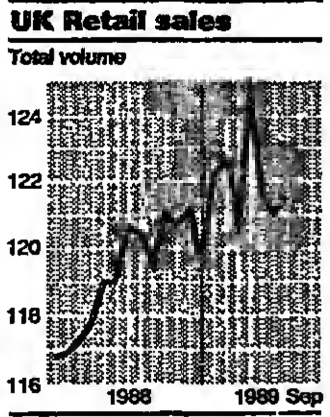
Among other features, they showed a further slowing of borrowing by individuals for mortgages, but strong growth in personal-sector lending for other purposes. In the three months to May, lending in this category increased by a record £2.1bn – faster even than in the heady days of summer 1988, when growth in consumer spending was at its fastest.

That points to a switching by consumers. A slower housing market has cut demand for mortgage lending – reducing a supply of credit which inevitably also found its way into other forms of spending, whether for house extensions, motor-cars or high-street spending.

The fact that the upswing in non-mortgage lending has been accompanied by a pronounced slowdown in retail sales suggests that its strong growth is maintaining, rather than boosting, consumers' expenditure. Hence the effects could be only temporary.

UK Retail sales

Total volume



Similarly, another fast-growing sector of bank lending has been to the property sector. Lloyds Bank has put the increase in the year to May at £10bn – a 60 per cent rise. Almost without doubt, this reflects the exceptional buoyancy of the property sector that has only recently been halted by high interest rates.

In August, Mr Christopher Johnson, Lloyds' chief economic adviser, said the bank sector may be overexposed to the property sector, echoing a similar warning by the Governor of the Bank of England in May 1987.

In manufacturing, recent growth in bank lending has been linked to the exceptionally strong investment growth. In the three months to May, total lending in this category increased by almost £3bn.

What happens next to bank lending depends on whether the factors that have supported it in the past year prove to be transitory or long-lasting.

Some are more sanguine than others. Mr Richard Jeffrey, economist at Hoare Govett, said: "Perhaps in six to nine months we are going to see the level of fixed-interest issues pick-up and companies paying off some of their short-term borrowings. At that stage you could see much slower growth in bank lending."

Certainly, investment is widely expected to slow dramatically. The average forecast for total fixed investment this year is for a rise of 6 per cent. In 1990, some forecasters expect a fall. That would put severe downward pressure on bank lending.

But it is not all gloom and doom. Deregulation and expansion in the City – some might even call it a revolution – are likely to prove once-and-for-all effects that will continue to underpin lending.

Moreover, a few are prophesying recession for the economy. Growth is expected in 1990 and beyond, but at much lower rates. That could leave lending to both consumers and the company sector still looking robust by historical standards.

David Lascelles on the changing shape of investment banking

Integrators and specialists

THE UK investment banking scene has been so dominated by bad news that it is hard to imagine there are any rosy parts to it these days.

On the corporate-finance side, the scandals created by Blue Arrow and Guinness have left deep scars, while bitter competition in the securities markets has caused heavy losses of both money and jobs.

Few merchant banks reported increases in profits last year: most saw them fall sharply, because of trading losses or soaring costs. This year, results so far have been mixed. Altogether, one would expect a mood of despondency.

But the City of London's investment banking community has become so diverse that only the blandest of generalisations hold good any more. The fortunes of its main lines of business, securities and corporate finance, have varied widely.

The first is still suffering from excess capacity created at the time of the Big Bang three years ago, with a large number of houses chasing a small, even shrinking, volume of business. The last few weeks have seen two more of them, Crédit Lyonnais and Merrill Lynch, pull out of the gilt-edged market. Before that, several scaled down their equities business, notably Morgan Grenfell which pulled out altogether last Christmas with the loss of 450 jobs.

All this took its toll on merchant-banking results. Both Kleinwort Benson and Morgan Grenfell reported a loss in the second half of last year. S.G.Warburg remained in the black, but profits were unchanged for the year before, and Sir David Scholey, the chairman, described the outlook as "challenging and stimulating" – a pronouncement which was open to various interpretations.

A notable casualty was UBS Phillips & Drew, the Swiss-owned investment bank which disclosed £115m of losses in the 21 months to December 1988. Even privately-owned groups like Barings and Robert Fleming admitted to having suffered from the difficulties of the securities markets.

Fortunately, corporate finance has been quite the opposite: the takeover boom has produced a torrent of mergers and acquisitions – and hefty fees – which has gone a long way towards offsetting the securities losses.

Few merchant banks reported increases in profits last year: most saw them fall sharply

Mammoth deals, like Hoylake's £13bn bid for BAT Industries (from which Hambros could earn fees of as much as $30m), have hogged the headlines. But hundreds of smaller deals are also providing work for armies of lawyers, accountants and corporate financiers. And the prospects for growth, while dependent on the mood of the financial markets, seem quite good, particularly if the creation of the single market in Europe leads to a surge in cross-border business, as many merchant bankers hope.

Even so, the upheavals of the last 12 months have sharpened the debate in the City about the relative merits of trying to build up an integrated house with a foot in all the big markets, or concentrating on a few profitable specialisations instead.

The integrated approach is still in favour at the big houses. Sir David Scholey believes it is not only essential for anyone with serious ambitions in the global markets; it also strengthens a house by diversifying its sources of profit.

Mr Jonathan Agnew, the chief executive of Kleinworts, also says his bank is determined to press on with it securities business because it will pay off in the long run. After making a £35m profit in its latest six months period, Kleinwort claims that its earnings are now "back on course". Since then, Kleinwort has also been paring back some of its more far-flung operations, such as those in the US and Australia.

There is some encouragement in the fact that profits seem to be picking up again this year as the stock market regains momentum from the 1987 crash. And after the chastening experiences of the last year or two, banks are much better managed, and costs under tighter control.

But the counter-arguments are gaining ground, mainly on the evidence of the specialist banks who seem to be doing very well.

A convert is Mr John Craven, chief executive of Morgan Grenfell, who now says he is convinced Morgan did the right thing by pulling out of securities and concentrating on a narrower range of business, notably corporate finance where it has always been strong.

Morgan's profits are now 50 per cent higher than a year ago, and the bank has been able to increase its dividend for the first time since 1986. "We are now left with a clean business, while we had no strategic reason to be in equities," says Mr Craven.

A more specialised approach has also been successful at Lazards, Schroders, Samuel Montagu and Charterhouse, all of which have managed to win leading positions in the corporate finance league without running large domestic securities operations or providing their clients with an integrated service. They are also among the few merchant banks who have boosted their profits.

Considerably smaller banks, like Henry Ansbacher, Leopold Joseph, Brown Shipley and Singer & Friedlander, all claim to see considerable opportunities in selected lines of business, be it serving small and medium-sized companies, or in private banking, investment management, even insurance.

The attractions of the smaller end of UK merchant banking were sufficient to appeal to Bank of Yokohama earlier this summer, when it put in a successful £95m bid for Guinness Mahon, one of the few instances of a foreign acquisition in this business. Otherwise, the sector has been notable for the lack of takeover activity, despite the rumours that continue to swirl around houses like Morgan Grenfell.

There are, thus, few consistent threads running through the investment banking business. But the shape of the industry is increasingly polarised between the handful of large houses, which are attempting to become integrated houses on the American model, and the specialists with more modest ambitions.

BZW v County NatWest — a frontline report

Lessons from Blue Arrow

ONE EFFECT of the Blue Arrow scandal has been to open a wide gap between the two clearing banks which compete most directly in the investment banking market: NatWest and Barclays.

Natwest's offshoot, County NatWest (CNW), which was at the heart of the scandal, was dealt a near mortal blow by the damaging revelations of the official inquiry. Barclays, meanwhile, has seen its investment bank Barclays de Zoete Wedd (BZW) go from strength to strength. This has prompted unflattering comparisons.

While NatWest licks its wounds, Barclays has been careful not to gloat

But while NatWest licks its wounds, Barclays has been careful not to gloat. Immediately after the report came out, Mr John Quinton, Barclays chairman, sent a message to all employees warning them not to draw any satisfaction from their competitors' plight. Investment banking being volatile and highly unpredictable, that would only be asking for trouble.

Nonetheless, Barclays has reason to be pleased with its four-year-old creation. At the halfway stage this year, BZW reported profits of £42m, up from £33m for the whole of last year. This was helped by an exceptional £20m gain from the sale of an investment; but as Mr David Band, the chief executive, says, "That is the sort of business we're in."

BZW – which was made up of de Zoete & Bevan, the stockbrokers; Wedd Durlacher, the jobbers; and Barclays merchant bank – is now one of the leading players in the UK securities market, as dealer, broker and researcher. Mr Band says it has given Barclays the ability to supply highly sophisticated financing products, and thereby strengthen the group's access to top corporate clients.

Although BZW is still considered by competitors to be weak on the merchant banking side (something Mr Band accepts), it has demonstrated Barclays' ability to control an institution whose market-driven culture could hardly be more different from that of a staid clearing bank. The credit for this goes to the close ties that exist between BZW and Barclays at the highest levels. Four of its directors are on the Barclays main board and three are on on the chairman's committee, the group's ruling "cabinet".

NatWest, by contrast, demonstrated a woeful lack of understanding and control over County which allowed it to slide into scandal. But, far from terminating its troublesome offshoot, NatWest has decided to keep it going and, it hopes, eventually build it into something akin to BZW. "We still need an investment-banking capability" says Mr Tom Frost, group chief executive.

From the outset, CNW was never conceived on the same scale as BZW

The unenviable task of doing this has fallen to Mr Howard Macdonald, a tough Scot who has taken over as CNW chairman and is now rebuilding both the bank and its relationship with the rest of the NatWest group.

But he has an uphill struggle. From the outset, CNW was never conceived on the same scale as BZW. Even though it was expanded with the acquisition of stockbrokers Wood Mackenzie last year, it lags in terms of market share. The scandal has also cost it corporate finance business and hurt its credibility. Parts of it are losing money.

Mr Macdonald accepts that it will be "a two-year haul". But he insists that County has some "excellent businesses", like its investment management and structured financing operations. Even the corporate finance department, source of all the Blue Arrow trouble, has done some good deals for top international names like Nestlé, he points out.

One of his first jobs has been to introduce better financial and quality controls, and have them independently checked. Now he wants to strengthen the management and complete a more independent board.

But serious though he is about getting CNW back on track, there are few people in the City who see NatWest catching up with Barclays in the investment banking scene in the foreseeable future. There are even people who suspect that NatWest would have shut County down but for the existence of BZW as a competitive goad.

Although BZW is proof that clearing banks can manage an entry into the investment banking markets, County has given the sceptics plenty of evidence for suspecting that success is the exception rather than the rule.

David Lascelles

COMMERCIAL BANKING: the news is better than expected, says David Lascelles

Strong rise in advances by Big Four

THE BIG question facing UK bankers after more than a year of high interest rates is just how long the commercial loan market can hold up.

On the face of it, the news should be bad. According to official figures, company liquidity is at its lowest for 15 years. Industry's investment plans are also sharply down, and the outlook is sufficiently uncertain to create disagreement as to whether the next move in interest rates will be up or down.

Yet the evidence from the front is more encouraging. In the first half of this year, the Big Four banks' advances rose by 17 per cent. This was admittedly less than the 20 per cent plus rises seen in previous years. But it was still a strong rate, with most of it on the commercial rather than personal side.

The reasons could be bad, of course. The rise might be driven by distress borrowing as companies turn to their banks for funds to compensate for reduced cash flow. But so far, bankers say there has not been an alarming rise in bad debts, though one or two specific sectors, such as property, are showing signs of pain.

At NatWest, they are expecting commercial loan growth of 19-20 per cent this year, down from 25 per cent last year. But on present projections, next year may see only 15 per cent, according to Mr John Rhodes, the head of advances for UK branch business.

Mr Rodney Baker-Bates, the deputy chief executive of UK banking at Midland Bank, predicts that even if there is a slowdown, it will not be anything like as sharp as the last fall in the early 1980s, which produced large loan losses. He attributes this to the much stronger base of UK business these days, and the longer-term view that businessmen take. "It's much more stable," he says.

The greater strength of the UK company loan market is one of the reasons why the UK banks are competing for their share with added zeal. Over the last two or three years, the big clearers have reshaped their corporate lending business to provide a more focused level of service.

At the top end of the market, where multinational companies require the most sophisticated forms of service and competition is intense on a global scale, the challenge for banks has been to come up with bright ideas as well as with huge credit or underwriting commitments.

This prompted them all to reorganise themselves to combine the best of their credit, treasury and investment banking expertise. Lloyds and NatWest, for example, have combined most of their treasury and capital markets activities with their corporate banking departments. Midland has gone one stage further and rolled in its merchant bank, Samuel Montagu, as well, to form Midland Montagu.

The greater strength of the company loan market is one reason why the banks are competing for their share with added zeal

Barclays has retained more of the traditional structure, though it has in its separately-managed Barclays de Zoete Wedd, one of the strongest investment banks owned by a clearer.

But more effective though these new combinations may prove, the banks have still, by general consent, to make the best of them, particularly in marrying the different cultures involved. The sharp fall in profits reported by Midland Montagu last month (£20m compared to £110m the year) due to dealing losses and bad debts also highlighted the volatility of the top end of the corporate market.

For the medium and small company market, all the clearers now have in place newly formed networks of business branches or centres. Barclays has gone the furthest by opening 327 of them. Lloyds has 220 and plans a total of 500. NatWest, by contrast, has 78, and is aiming for 88 by early next year. Midland has about 65.

The clearers say these changes will sharpen their response to customer needs, and make them more efficient.

Although much of the lending is in the form of traditional bank loans and overdrafts, the growth of the leveraged buy-out market has provided a new, if unfamiliar, source of business. The clearers have financed considerable numbers of management buy-outs, but with a wary eye. The recent difficulties of MFI, the kitchen fittings company which did the UK's biggest MBO, has reinforced bankers' caution.

Despite the much-publicised withdrawal of Citibank, the US's largest bank, from the smaller end of the UK corporate market last year, foreign bank competition is growing, particularly from the Japanese. Foreign bankers say their greatest competitive advantage is the speed and flexibility of their response, compared with the lumbering clearers.

Other new entrants into the market include the Trustee Savings Bank, which has combined its commercial banking business under the name of its merchant banking subsidiary, Hill Samuel. But this business is still small, and the other clearers say they expect TSB to take a time to make its mark in the market.

Similarly, the building societies, who now have powers to make commercial loans, are being cautious in their approach. The £25m exposure of the Halifax, the country's largest, to the troubled property company, Kentish, has underlined the risks they run when they start moving outside their traditionally safe mortgage market.

The Abbey National, recently converted into a bank and floated on the stock exchange, has said it will continue to focus on the personal market, rather than make any strong sallies into commercial lending.

The clearers claim to be fighting back gamely against the newcomers. But the effect of stronger competition has already been to drive down margins on corporate lending. "I see banks conceding more on rates now," says Mr Rhodes, of NatWest. But he thinks there is a limit to how far this process can go, because of the higher capital commitments banks have to make under the new international rules.

CLEARING BANKS

Even giants watch costs

TIMES ARE becoming more challenging for the big four UK clearing banks who, not long ago, seemed to have the market almost to themselves.

Not only has competition between them become more intense, but they also have to contend with a new tier of large-to-medium banks such as TSB, Royal Bank of Scotland and Abbey National, not to mention the building societies.

John Quinton: ahead of schedule

So far, the two largest clearers, Barclays and National Westminster, look well placed to hold their own. With total assets of £126bn (Barclays) and £111bn (NatWest), they dwarf even the smaller members of the big four, Lloyds (£53) and Midland (£65bn).

The sheer size of the big clearers' current-account customer bases (over 6m each for Barclays and NatWest) means that if they go into a new line of business – for instance, mortgages – they automatically become major players in that market.

Size is an important part of the game for the big four. NatWest and Barclays have jostled for top position for several years. Mr John Quinton, chairman of Barclays, is believed, two years ago, to have set his bank the goal of becoming "number one by 1991". The target was reached this summer, two years ahead of schedule.

The smaller banks, however, identify other targets as more important than size. "Our primary objective is sustained, superior return on equity, measured by profitability rather than volume," says Mr Brian Pitman, chief executive of Lloyds, the smallest and perhaps the most aggressive of the four. "And cost advantage provides better value for money for customers."

Pursuit of this philosophy has taken Lloyds into areas where its rivals have been slower to penetrate. The establishment of an estate agency in the early 1980s was followed last year by the takeover of Abbey Life, and the setting up of a merged all-round financial services group, Lloyds Abbey Life.

Lloyds forced the pace in the introduction of interest-bearing current accounts

Lloyds has also been more aggressive than its rivals on other fronts, forcing the pace in the introduction of interest-bearing current accounts at the start of this year, and taking a calculated risk in August by asking its Access credit-card customers to pay an annual fee.

Lloyds may also have deliberately put the squeeze on its competitors this summer when it raised its provisioning on Third World debt to 47 per cent, so temporarily reducing its half-year profits to £93m – less than a quarter of their level a year earlier.

Doubtful Third World debts, the legacy of mistaken commercial decisions earlier in the decade, are likely to haunt Lloyds and its rivals for some time to come.

Lloyds has problem-country debts of £4.15bn, while NatWest has exposure of £2.8bn and Barclays £1.96bn. Midland, with total lending to problem countries of £4.78bn, is under much greater strain.

During 1987 and 1988, good results in home markets, especially on their personal-customer business, helped the big four to meet problems with developing-country lending.

However, when they announced their interim results this summer, the picture was not so uniformly encouraging. Midland Bank, already beset by debt problems, also had to contend with a drop in profits at Midland Montagu, its corporate banking and global investment arm, caused partly by exchange-rate losses and partly by bad debts and fraud.

Midland may be able to prune staff in its average branch from 25 to about eight

Midland, however, is still reaping handsome returns on UK lending, especially to small and medium business. Its UK banking profits were up by 27 per cent.

In contrast, profits were down by 11 per cent at NatWest's UK financial services division, though well up at Barclays'. But profits from Barclaycard, once an important prop of Barclays' overall profitability, had shrunk from £44m in the first half of last year, to £19m this year.

The banks' interim results were swiftly followed by the news that they were thinking of boosting their capital ratios by selling Yorkshire Bank, the small Leeds-based bank which NatWest, Barclays, Lloyds and Royal Bank of Scotland have owned jointly since 1911.

More important in the long term is the banks' ability to prune their costs. Midland, whose cost/income ratio was around 68 per cent in the first half of the year, believes it has an answer. Early this year, it cut 2,000 jobs and has embarked on a programme to shift the emphasis in its 1,960 branches to the sale of financial services.

Customer accounts are to be processed at 12 district services centres. This is part of a broader programme of heavy investment in systems. Mr Gene Lockhart, director in charge of the bank's group operations division, warns that it may be three years before the investments are seen to produce lower costs. Ultimately, however, Midland may be able to prune the number of staff in its average branch from around 25 to about eight.

Midland's competitors tend to dismiss this strategy as "factory banking". Mr John Hutchinson, assistant general manager at Lloyds, says: "Midland is taking a different route from ourselves; NatWest, and Barclays, where we all tend to favour a flexible response. Processing has to be close to customer services. The more details that you can capture at the counter level, the better."

As a result, though it is also engaged in restructuring its operations nationally, Lloyds is in effect decentralising some of its processing work.

This restructuring takes place against a difficult background of a market squeezed by unusually high interest rates, and forces some awkward decisions. For example, the banks have had to decide whether they should once more withdraw temporarily from the mortgage market, while interest rates are high, and return later.

They appear to have resisted the temptation, believing that retention of customers and market-share is more important than the difficulties of living with high interest rates in the short-term. "There is no question of us putting our mortgage business on a back burner," says a Barclays spokesman.

Similar concern with market-share has led Lloyds to launch interest-bearing current accounts, and Midland to offer Switch, the electronic debit-card system it has developed with NatWest and Royal Bank of Scotland, to retailers at highly competitive rates.

David Barchard

BUILDING SOCIETIES

Few favour taking the Abbey route

RECEIPTS AND COMMITMENTS (£m)	Net receipts	Net new commitments
May 1988	1,358	5,288
June	1,239	5,668
July	1,362	5,360
August	1,179	3,978
September	821	3,556
October	1,583	3,588
November	788	3,445
December	819	2,232
January 1989	784	2,258
February	1,084	3,432
March	813	4,254
April	1,175	4,336
May	713	4,496
June	-153	4,867
July*	848	3,834

*Figures from July 1989 exclude Abbey National, and are not comparable with earlier data. Source: Building Societies Association

WHEN ABBEY National, till then the second largest UK building society, floated on the stock market this summer, a new and uncomfortable era began in building-society history.

Abbey National's departure had implications for the way the industry organises itself. The monthly statistics of the Building Societies Association are no longer continuous with previous year's. The BSA has joined forces with other types of mortgage lenders, including some banks and mortgage companies, to set up a new Council of Mortgage Lenders.

"We are enjoying the winds of change, but there is no spirit of resignation in us," says Mr Tim Melville-Ross, chief executive of Nationwide Anglia, which has now become the second largest society. He says his society has no plans to follow Abbey National and become a company. Halifax, the largest, which looked at the idea a year ago, agrees.

Mr Terry Adams, chief executive of the Skipton (16th largest), shares their view. "We are doing very well as we are on both sides of our business. There is absolutely no market reason why we should want to change our status," he says.

Not all large societies can be quite so relaxed. Last year was

Tim Melville-Ross detects a rise in the mortgage market

the best ever for building societies — at least, until August when the housing boom stopped. Savings poured in from small investors, while mortgage business rose to record levels. The story in 1989 is rather different.

Savings are still doing fairly well, but Dr John Wriglesworth, building societies analyst at the stockbrokers UBS Phillips & Drew, believes that there are already strong signs of a downturn. Building society mortgage business has held up fairly well, but only because societies have held down their prices in a very depressed market to cling on to market-share.

Though the banks' base rate has been 14 per cent since May 24, driving most mortgage companies to put their rates up to just under 15 per cent, Halifax has held its standard rate down to 13.5 per cent. The other societies have had little option but to follow. This, in turn, has meant keeping rates to savers down, and so losing some business.

Mr Melville Ross is not dismayed. "I believe we are already seeing some signs of an upturn in the mortgage market. We should certainly be able to hold the present mortgage rate well beyond October."

This fits the views of Mr Jim Birrell, chief executive of the Halifax, who has reiterated his belief throughout the summer that mortgage rates should be kept down. Halifax is still the most powerful voice, and though some smaller societies offer slightly higher than average rates, most larger ones are unlikely to increase their rate until Halifax does.

It has fanned the market with an advertising campaign for its recently re-branded estate agency chain. The chain itself is a reminder that building societies, like other providers of retail financial services, are locked into the diversification plans they launched two or three years ago, when the market was different.

Halifax's estate agency chain — and Nationwide Anglia's — are thought to be making heavy losses. Halifax has also had to pay an estimated £2m on launching its Visa credit card, an expense that has deterred latecomers such as Nationwide Anglia and Abbey National from going into the credit-card business.

On top of that, there is the heavy cost to the society of launching a cheque-book current account this autumn, a decision which it admits was largely forced on it by the clear preferences of its customers. Halifax had hoped that it would be able to leapfrog straight into electronic current accounts, using as its main plank its Cashcard scheme, which provides all the services of a current account except a cheque-book.

All of these changes will eat into the societies' balance sheets next year, and these days "profit" is a word which building societies use as freely as anybody else. These products, however, simply enable societies to offer the all-round retail banking services of the clearers.

Some of the more agile societies in the top 20 have managed to avoid these risks by sticking to their traditional savings and loan business. Cheltenham and Gloucester (8th largest) remains highly profitable, partly because it does not offer its customers many retail financial services. "We don't have a single automatic teller machine, for instance," says Mr Andrew Longhurst, the chief exective.

Other, smaller, societies went into retail banking activities early, and used the combination of a strong regional base and agency agreements with larger providers of services. One example is Norwich & Peterborough (22nd).

But the strategy of becoming something like an all-round regional bank may not be something that can last for ever. Norwich & Peterborough put out a clear signal in early September that it was contemplating changing status, by announcing that it had retained as its adviser Kleinwort Benson, the City merchant bank that advised Abbey National on its flotation.

Diversification into retail banking is only part of the story. More important shifts have been taking place during the first nine months of the year in the relationship between building societies and insurance companies.

A year ago, Halifax and most of the top 10 societies were still registered as independent intermediaries under the Financial Services Act for the sale of life assurance. The first society to opt to change its status to "tied" was Cheltenham and Gloucester.

Links between societies and life companies may lead to closer relationships

It has since been followed by most other large societies. In the top 10, only tha Bradford & Bingley (7th) and Nationwide Anglia are now independent.

Mr Melville Ross recognises the undesirability of this situation. "The benefits we thought we saw from being an independent intermediary aren't really there," he says. "We are considering changing."

Links between societies and life companies may prove the beginnings of a much closer relationship.

Halifax's tie with Standard Life is, some observers predict, perhaps the first step to the emergence of a giant financial services conglomerate. Britannia (9th) has led the way: last spring it announced that it was taking over and demutualising FS Insurance, a small Glasgow-based mutual company.

Since then, the Woolwich (3rd) and National & Provincial (6th) have set up joint ventures with life assurance companies and created their own subsidiaries to which they will tie.

These developments illustrate the liveliness and adaptability of the large societies. But, with the prospect of high interest rates through most of next year, pressures from their markets may increase the pace of change and perhaps produce casualties.

David Barchard

THE HIGH STREET: **David Barchard** describes the increasingly tough competition

Savings shines among the new products

"OUR RESEARCH tells us that, when it comes to banking products, customers want simplicity coupled with good quality," says Mr Derek Wanless, general manager for retail banking, at National Westminster.

From the customer's point of view, new prodncts tumhle incessantly from banks and building societies. The last six months has seen a proliferation of new products. These include specialised mortgages, designed to help home-buyers survive high interest rates; a variety of interest-bearing current accounts; on-line life assurance sales services, from NatWest; and a hlizzard of new credit cards.

For the banks, retail banking in the past has offered large volumes of business at low cost, leading to steady profit growth. In a speech last year, Mr Rohin Leigh-Pemberton, Governor of the Bank of England, pointed out the role technology plays in the retail banking revolution.

To provide the range of retailing banking services available in the UK today, with the technology of 20 years ago, he said, the entire population would have to be employed in the banking sector.

However, when it comes to new products, banks have not always led the way. Interest-bearing current accounts, for instance, were originated hy Nationwide Anglia Building Society, followed 10 months later by Abbey National. Only when the flow of customers to these two threatened to reach alarming levels did the clearers responded hy offering their own interest-bearing current accounts.

As a result, says Mr Malcolm Hughes, general manager for marketing at TSB Bank, the clearers have won a victory. Nationwide Anglia, which had been hoping to make profits by building up a current-account customer hase of over 3m, finds itself frozen at the point of highest cost for its current account — around 1.1m.

Meanwhile, the cost of operating interest-bearing current accounts is knocking tens of millions of pounds off the profits of the big four clearers. Most banks claim that, in return, the new accounts are helping them to hold on to customers and to sell them more products.

"Strategies in retail hanking tend to be mostly defensive," says Mr Kevin Gavaghan, marketing director at Midland Bank and the best-known advocate of strong branding policies in high-street banking.

"The amphasis is on the retention of existing customers and the cross-selling of other products to them. There are few strategies around which actually attempt to gain market share. The only way to do that is through price. But what banks should really be looking at is developing products to meet the needs of different types of customer," he says.

Other banks, which have hrought in strong heads of marketing, increasingly agree on the need to improve their selling operations. Mr John Cheese, appointed marketing director of Barclays earlier this year, is another believer in banks' need to improve their marketing operations.

"The days are over when marketing in banking jnst meant selling," he says. "And advertising should not mean just chucking money at the TV screen. Marketing bas to match resources with the needs of the customer, as well as formulating pricing. Historically, banks have been almost ovar-concerned with other aspects of their husiness, such as fiduciary responsibility."

Many retail bankers admire the benefits that flow from TSB Bank's ability to offer a trained sales force to branch customers when selling life insurance products. Though many of TSB's retail banking operations compare badly with those of the clearers, its life assurance business is doing well.

Midland, guided by Mr Gavaghan, has pursued a policy of

Kevin Gavaghan: a policy of segmentation at the Midland

segmentation, splitting its interest-hearing cnrrent accounts into products for: net savers (Meridian); net spenders (Vector); and those in the process of forming a family (Orchard).

Jokes about the difficulty of remembering what each Midland account does and who it is for are common among the bank's rivals, but cut no ice with Mr Gavaghan. "There is a 15-year minimum life in these brands," he says. "It is an important part of our strategy to harvest our relationship with our customers over a number of years."

At one end of their high-street business, all the clearers agree on this. Competition for accounts from children, teenagers and students is ferocious. NatWest, which has invested heavily in branches on university campuses, claims the largest share of the student market. However, students are notoriously fickle and are more likely than the population as a whole to change their current account.

"The price of student customers to banks is going up steadily," says Mr Gavaghan. "At Midland, we have a 20 per cent share, but we are more excited by products which attract the very young. For instance, Live Cash, an account aimed at 14-year-olds has put on 200,000 accounts since Christmas."

One area where banks as a whole are gaining from their non-bank competitors is savings. Throughout 1989, building societies have held down their mortgage rates and relied on a strong inflow of retail funds from small savers. But there has been a price to pay for holding down rates.

Although, British people are said to prefer to keep their savings with a different institution from their bank, banks are beginning to make inroads into the savings market. Mr Gavaghan says that Midland has opened more savings accounts this year than in the previous seven.

"We tend to overlook the fact that we at Barclays hava already twice as many savers as borrowers," says Mr Cheese.

Barclays announced earlier this month that it was launching a campaign to attract savings. Its eye was probably not only on the building societies, but on the large amounts of money flowing out of National Savings.

Behind these short-term strategies, however, lies a more uncomfortable long-term awareness of overcapacity in the retail financial sector. "Something has got to give eventually," says Mr Cheese. "We can't all go on for ever chasing around with the present squeeze on margins."

Who will the casualties be? Heavy losses on subsidiaries such as estate agencies are already weighing heavily on some balance sheets.

Credit cards are another area where declining profits point to an eventual shake-ont, probably favouring the higher-volume producers, and perhaps punishing those issuers, such as building societies and small banks, who came late to the market and were willing to sustain high costs to do so.

FINANCE HOUSES

Bad debt in decline

FINANCE HOUSES do not receive a lot of press, and even when they do get noticed the reports are not always favourable.

To some people, their operations are inextricably linked with the growth in consumer credit over the past faw years, a trend which faw observers have welcomed.

In fact, businesses, many of them small, are the recipients of the majority of finance-house lending, and it is this area where growth has been most huoyant.

In 1988, 39 per cent of finance-house lending was to the personal sector, 28 per cent was to husiness (mainly in the form of industrial hire-purchase agreements) and 33 per cent was tied up in leasing.

Nevertheless, it is inevitable that personal-sector lending will continue to attract the most attention, particularly in the light of public concern over the prohlem of indebtedness. However, the Finance Houses Association says that, contrary to popular belief, its bad-debt statistics have heen falling steadily over the past few years.

"Bad debt levels are closely linked to employment," explains Mr Neil Grant, FHA director. Unemployment has been falling over the last five years, allowing people to service their interest payments from their wages and salaries.

Another factor in reducing finance-bouse bad debt levels, according to Mr Grant, is that "credit assessment techniques are mucb more sophisticated". Potential defaulters are screened out before any money is lent to them.

The FHA has also attempted to avoid trouble by issuing a code of conduct for its members involved in lending to consumers. The code, issued in 1987 and backed by the Office of Fair Trading, requires houses to make a search with one of the credit reference agencies, to ensure that advertisements for secured loans make clear that the loan is secured on the customer's bouse, and to deal promptly with complaints.

In the first year of the code, the FHA says that only 34 complaints were received. All but six were resolved within the 12-month period, with both parties agreeing that no further action was necessary.

Whether the finance houses will be able to maintain their good record on bad debts in the current high interest rate environment is harder to tell. Those people who bought property at the peak of the housing market will be in the greatest difficulty, and they are more likely to maintain their mortgage payments than payments on other types of debt.

Unemployment has been falling over the last five years, allowing people to service their interest payments from their wages and salaries

As the FHA points out in its 1989 annual report, "consumer credit booms in the past have often been followed by a deterioration in customer accounts' performance."

The biggest single category of finance-house consumer lending in 1988 was for store goods (£2.79bn), whicb leapt ahead of property lending (£2.45bn). However, the comhined categories of new and used cars involved lending of around £3.29hn.

New and used cars were the biggest single element of the finance houses' leasing activities, involving £1.84bn of new loans in 1988 – more than douhle the figures for other categories such as commercial vehicles, computer and office equipment, or industrial plant and equipment.

In the field of business lending (excluding leasing), cars were again the biggest category with £1.82bn of lending on new cars in 1988 and £889m in respect of used cars.

Total outstanding credit of finance houses at the end of 1988 was £34.1hn, a 19 per cent increase over the end of 1987 with no significant changes in membership to distort the figures.

In each of their market sectors, finance houses face strong competition from outside agencies: on consumer lending, they are rivalled by the banks and the huilding societies; on leasing, by the specialist leasing groups; on business lending, once more by the banks.

This competition, according to the Finance Houses Association, is making profits growth a struggle. "Although interest rates appear high at the moment, houses are earning little margin over the cost of overheads and bank daht," says Mr Neil Grant, FHA director.

In fact, many of the largest finance houses are owned by the clearing banks, hut that, according to the FHA, does not seem to affect the intensity of competition. There is a tendency towards consolidation; the 10 largest members of the FHA pay 80 per cent of the subscriptions.

However, the FHA's 45 members also include the finance arms of many retailing groups such as Burton, Littlewoods, Marks and Spencer, Next, and Sears; and a third of the membership is now owned by overseas companies.

The business of the finance hnuses now seems broadly based enough to survive any downturns in the consumer-lending market, but nevertheless, most houses would be only too pleased to see a downturn in interest rates sooner rather than later.

Philip Coggan

Foreign banks in London

Searching for a niche

IT IS easy to caricature the way foreign banks have dealt with London since Big Bang. It goes like this . . .

☐ *The Americans rushed in with suitcases bursting with cash, and poured the hapless Brits into US management moulds before tripping over their own feet.*

☐ *The Japanese surreptitiously bided their time, living off Japanese manufacturers' investment in the UK, learning about the ways of the City, waiting for the Americans to fall far enough for them to step in and clean up the mess.*

☐ *The Swiss were no better than the Americans; and the rest of poor old continental Europe, undercapitalised and over-regulated, was out of its depth against the experience and might of the City establishment.*

Like any caricature, there are grains of truth here, and all the participants are doing their best to redraw the picture.

For some Americans, London was an experiment that went wrong. The Glass-Steagall Act prevents a single institution from being both an investment and a retail bank in the US. London became a laboratory for the likes of Citicorp, Chase Manhattan and Bankers Trust to test unfamiliar areas.

IBJ's Tadashi Natori: 'we are patient'

Unfortunately, Citicorp has become the paradigm for the luckless foreign experience in London. After heavy losses, a string of management changes and staff defections, it withdrew from gilts trading, brought in tha management consultants, cut jobs and strengthened its institutional banking presence in Frankfurt. As a result, sentiment may be beginning to turn in Citicorp's favour. One industry observer says Citicorp has become "the most European of American banks".

The Swiss, too, have had to make changes. Three of the biggest banks had their fingers hurnt in equities, and have sought varying remedies. Crédit Suisse and Swiss Bank Corporation, which hought stockbrokers Buckmaster and Moore and Savory Milln respectively, have all but withdrawn from equity market-making. Union Bank of Switzerland, in spite of losing £115m in the 21 months to last December, is persevering. It restructured this spring by merging its Phillips & Drew securities subsidiary with UBS Securities.

With the benefit of hindsight, City analysts say that these banks' mistake was to try to do too much. More successful have been Goldman Sachs and Morgan Stanley – securities houses, not banks – which chose a more studied approach to the UK.

The "foundations first" strategy is characteristic of the Japanese in London. Some have gone to the extent of obtaining listings on the London stock market "simply to get our name known," admits Mr Kenjiro Noda, joint general manager of Sumitomo Bank in London.

Mr Tadashi Natori, general manager of Industrial Bank of Japan in London, says of his philosophy: "We are patient." IBJ takes a niche-driven approach, and is keen to emphasise its activities in aircraft-leasing and project finance for British and European clients. Less than half its business in the UK is in deals that involve Japanese companies, says Mr Natori.

Few foreign banks now see a future as all-purpose financial services institutions. As they seek battlegrounds more familiar to them than indigenous operations, the attractiveness of knowing a niche becomes irresistible. Mr Adrian Pharès, general manager of Banque Indosuez in London, sees a future in servicing medium-sized and smaller companies, such as in equity placements and USM-listings. He says the UK majors have the ear of large corporations, and that the single market after 1992 will encourage middle-sized companies to try Europe-wide sourcing.

Americans, too, are keen on finding, or even creating, new niches. Over the summer, both Bankers Trust and Morgan Stanley launched covered equity warrants for London-quoted stocks. They, and others, talk of an emphasis on carefully tailored, high value-added instruments for both investors and borrowers and especially in hedging.

No one is in any doubt that London will remain the capital of Europe as far as equities and related instruments are concerned. But Citicorp's efforts to increase its European presence, particularly in investment banking, is an indicator of decentralising potential even among US banks, which tend to use London as the headquarters of their Old World operations.

"London is not going to be the overwhelmingly dominant banking centre of Europe in the single market," says Mr David Hall, of Boston Consulting Group. The nature of the business has changed, he argues, disintermediation has cut a swathe through banks' potential clients: "You do not make money lending to IBM."

Despite this, Mr William Vincent, European banking analyst with Salomon Brothers, says that London will remain the financial capital of Europe for any bank that wishes to operate across the continent. He singles out the advantages of language, liquidity, and size of equity trading. He adds that London is "clean, the market is difficult to manipulate, and the regulations are clear".

Few see a future as all-purpose financial services institutions

Observers and participants say, however, that different sectors face a variable rosy future in London. Commercial bank lending has seen solid growth in all areas of activity this decade. Bankers are less than sanguine over what happens next. The brakes will be applied by the imposition of capital ratios – 8 per cent on most lending. This will tighten margins and make a greater proportion of the business unprofitable. "Only a few basis points will not provide enough return for our shareholders," shrugs one banker.

International trade finance looks more promising. The single market will encourage banks to try to capture market share by offering bespoke products using new instruments, such as commodity swaps, as part of a range of risk management instruments.

Another attractive area is loans to financial institutions, especially smaller banks. These will require only one fifth of the capital backing demanded in capital ratios rules for commercial loans. Mortgages need only half as much capital backing as ordinary commercial loans, and will therefore also find acolytes, though much depends on the state of the UK housing market and interest rates.

The retail side continues to remain a relatively small part of foreign institutions' activities in the UK. Foreign individual and company accounts are the mainstay. One French bank, Crédit Lyonnais, has found a new business. Still small, hut growing, there is ready demand for mortgages among Britons buying property in France.

Daniel Green

CREDIT CARDS: profitability has waned, says **David Barchard**, as . . .

The burden of paying shifts to consumers

IT IS just a year since "duality" – simultaneous bank membership of Visa and MasterCard – arrived in Britain. Since then, changes in the industry have been tumultuous.

The big four clearers now all isane hoth MasterCard and Visa cards. On the other side of the business, signing np retailers for credit cards, competition between the banks bas replaced the former monopolies enjoyed by Barclaycard for Visa and the Joint Credit Card Company (JCCC) for Access/MasterCard.

Barclays, National Westminster, Lloyds and Royal Bank of Scotland all offer combined Mastercard and Visa services to retailers; and Midland, whicb along the way became embroiled in a dispnte with Visa, is dne to follow shortly. Amoog the largest UK banks, oaly TSB Bank has so far opted to remain a card issuer only.

These pressures are not the only ones that the industry faces. High interest rates have pushed np tha cost to customers of credit-card borrowing, nsing the main credit card brands, hy more than 3 per cent, to 29.8 per cent.

Profitability has waned. Barclays' central retail services division, for example, saw its profits at the half-year down from £44m, in 1988, to £19m this year. Barclays says that the fall will be offset in the second half of the year by higher interest rates for Barclaycard. Rates were not increased in line with base rates for over six months to mid-July.

Another sign of the market's volatility is the nnmber of senior credit card executives who have changed companies. Mr Peter Ellwood, previously chief executive of Barclaycard, moved to TSB Bank last spring, sending shock waves through Barclays.

Mr Mike Blackburn, former head of Access, is now chief executive of Leeds Permanent Building Society, where he has established a notable Visa card operation. Mr John Lee, once head of Midland Access, has also moved to the TSB Group.

Three banks are pressing ahead with Switch, designed with retailers' wishes in mind

Because of these changes, the Monopolies and Mergers Commission report on the industry, published in August, was universally hailed as a damp squib: it recognised the steady trend towards competition, and recommended only two changes.

It said that banks should be allowed to sign np retailers, as well as issue cards, as soon as they joined a credit-card system; and it recommended the Government to allow retailers to charge different prices for payment hy cash or card. The Government is still considering the report.

From the customer's point of view, the industry has changed. There is a greater choice of plastic cards than ever before. A current-account customer of many banks can now get both MasterCard and Visa cards from the same bank. There are also a wide range of affinity cards, including such bright ideas as Midland's Arts Card, which allows credit card holders to sponsor the orchestra or theatre of their choice, alongside the lower interest rate cards, intended for customers who still use their cards for borrowing.

These are still in a majority, despite frequent claims that more customers are paying off their card account in full every month. Lloyds Bank, for example, reckons that about 63 per cent of its customers use their cards for borrowing and incur interest charges.

Optima is allowing retailers to drive down the commissions they pay to the credit-card issners. "I think the average retailer fee is now just under 2 per cent," says Mr Ellwood. A year ago it was generally thought to be nearer 2.3 per cent.

So the burden of paying for card services is shifting away from retailers (who in the past have contributed about a third of banks' credit-card earnings) to consumers. Competition is increasingly about how to win those customers who need to borrow hnt are good credit risks.

American Express fired the first shot last spring by introducing its Optima Card in the UK. Although it costs £10, in addition to the usual UK Amex cardholder fee of £35, it offers customers the opportunity to borrow sums over £1,000 for rates of interest around 17 per cent.

"Wa are very pleased by the take-up rate of Optima," says Mr Alan Stark, UK general manager. "We find a lot of customers used Optima to make one large cash withdrawal soon after getting the card. So we assume they were drawing funds to pay off other cards and switch their borrowing to us because of the lower interest rate."

Optima follows cut-rate Visa cards, such as those of Save & Prosper and Chase Manhattan, and has been followed by Barclays' Assent Card, intended to be a budget borrowing plan for people who at present use retailers' proprietary cards with their very much higher rates of interest.

The lower-rate cards are small players in the market, with their customers numbered in tens of thousands rather than millions. But some credit-card issners are attempting to grow mass cards to rival those of the banks. They are finding that it is a fairly expensive business.

Halifax, the largest UK building society, is reputed to have lost £3m on its Visa operations in the first year, and – if the history of Barclaycard and Access is any precedent – the operation will probably not come into profit for several years.

Other building societies launching their nwn Visa cards, such as Leeds Permanent and National & Provincial, are probably suffering *similar losses. An exception* may be Town & Country, the 15th biggest society, which has launched a cut-price Visa card along the lines of Save & Prosper.

High interest rates have pushed up the cost of credit-card borrowing by more than 3 per cent

The smaller card issuers may be hoping to benefit when annual fees are introduced by their larger rivals. Lloyds Bank announced in August that it would be charging holders of its Access card an annual fee from the New Year. The fee will probably be £12. So far the other Access card issuers have kept silent, hoping that Lloyds customers may desert in droves, but also knowing that they themselves will probably be introducing charges very shortly.

"Yes, some people will probably move on because of annual fees," says Mr Gerald Hawkins, assistant general manager for card services at Lloyds. "But if they are people who pay np in full, then frankly they are not the customers our competitors will benefit from. If a customer pays interest on his credit card, then he will do better to stay with us because we will charge him a lower rate than the others do."

Meanwhile, Midland Bank, NatWest and Royal Bank of Scotland are pressing ahead with Switch, an electronic-nnly debit card that is designed with retailers' wishes in mind, and which has been bitterly criticised hy some other banks outside the *scheme. However, Switch has* gained new recruits during the year, with Yorkshire Bank and Bank of Scotland joining.

Midland Bank officials say that 16 of the top 20 retailers are discussing whether to use Switch. Sainsburys heads the list of those who have joined the scheme so far. Among the retailers in discussions with the Switch banks is Marks & Spencer, which until now has never accepted any bank card. It would be a rare triumph if it were to join the scheme.

David Barchard visits Apacs, set up to help handle the rising volume of payment clearing

Four get to grips with the paper-chase

AT FIRST sight, Triton Court, home of the Association for Payment Clearing Services (Apacs), is the closest thing to an ivory tower that one is likely to encounter on the British banking scene. A cool atmospbere of intellectual detachment from market battles prevails.

"We exist to provide co-operative services for the banks witbout prejudicing competition." says Mr Michael Williamson, deputy chief executive for strategy and planning.

Apacs is a newcomer among banking institutions, set up to help the hanks handle the vastly increased volume of payment clearing since 1980. Its establishment followed the Child Report on Payment systems, in 1984.

Its formal role is to act as the recognised authority on all money-transmission matters and payment-clearing activities in the UK, and on the development of new systems to meet future needs.

The report recommended that the system be open to any financial institution that satisfies technical requirements and accounts for at least 0.5 per cent of payments in one of three categories – cheques, large clearings and small automated payments.

Three clearing companies, corresponding to each category, were set up:

☐ The Cheque and Credit Clearing Company, for bulk paper clearings;

☐ The Clearing House Automated Payment Syatem (Chaps) and Town clearing Company, for high value clearings; and

☐ The Bankers' Automated Clearing System (Bacs), the hulk electronics payments clearing system.

Mr Williamson points out that the volume of clearings handled hy these bodies is almost unthinkably large. The three clearing companies last year processed more than 3.6bn items, to a staggering total value of £20,461bn.

A fourth company, EFTPOS UK, was formed in 1986, to work out systems for electronic shopping and funds transfer. It hagan trial operations in three towns at the end of Angust, and is headed hy Mr Brian Allison, formerly of National Westminster Bank.

Mr Richard Allen, Apacs chief executive, joined Apacs (in EFTPOS) three years ago from the Bank of England, and became head of Apacs a year later. His total staff at the end of July was around 100 people.

Meanwhile, Apacs' membership has been growing steadily. From 13 members three years ago, all of them banks, it has grown to 19, including the two largest building societies, Halifax and Nationwide Anglia.

In June 1988, Apacs relaxed tbe critaria under which smaller banks and building societies may become members of Bacs, allowing any institution with more than 5m transactions a year to join. This, however, was too high a barrier for most of the top 10 bnilding societies whicb, to their regret, have stayed outside the system.

Smaller institntiona, however, may become associate members of Apacs and provide its services to their members through agency agreements.

Not all smaller members have always found the price of its services sustainable. Girohank, for instance, an early member of EFTPOS UK, later withdrew on the grounds that it was too expensive.

Though Mr Williamson says that change in payments systems is "evolutionary, rather than revolutionary", he admits that Apacs is piloting the British banks through a period of very rapid change in the late 1980s. "We have had as near a revolution as you can get," he says.

The most obvious features of this revolution are the shift away from paper-based transactions to electronic ones, and the increase in volumes. Total cheque volumes have been increasing at a rate of between 3 and 4 per cent a year through the 1980s, though most (about 60 per cent) of this comes from husinesses rather than personal customers.

"Paper is a very big market and alwaya going to remain so, even though there is a marked shift away from cash and towards electronic transactions," says Mr Williamson. "A massive expansion of plastic is expected, and there will certainly he a great growth of debit cards. What we cannot know for sure is exactly how quickly it will come."

Cheque volumes have been increasing by between 3 and 4 per cent a year in the 1980s

These grand issues were temporarily overshadowed last April when another of Apacs' functions attracted masaive publicity. Apacs handles tha inter-hank cheque guarantee system. Since 1977, the banks had held the limit on cheque cards at £50, arguing that to raise it above this would cause fraud levels to rise unacceptahly.

Consumers' groups claimed that the banks were holding the cheque-card limit low, in order to prod customers into using debit cards rather than cheque-hooks for payment. They also pointed out that, if the 1977 £50 limit had kept pace with inflation, it would now be over £125.

Apacs members split ranks, with Midland Bank arguing the need for a higher cheque guarantee limit, while other members, particularly Lloyds and Barclays, said that memhars were free to issue their own higher-limit cards if they chose.

News that Sir Gordon Borrie, the Director General of Fair Trading, was to investigate the scheme, produced a swift compromise. Banks were allowed to issne guarantee cards at three levels – £50, £100, and £250. The task of designing a new hologram for the higher-limit card was completed by September, and TSB Bank became the first bank to issue a combined cheque and debit card with the glittering multi-coloured Apacs £100 guarantee on it.

Apacs officials tend to see the cheqne-guarantee card furore as something of a sideshow, compared with the task of presiding over a changing market. Mr Williamson dismisses the incident as "a trivial change".

"What I think is much more important," he says, "is to realise that, if we continue to develop sound clearing and payment systems, as in the past, then London will continue to play an international role."

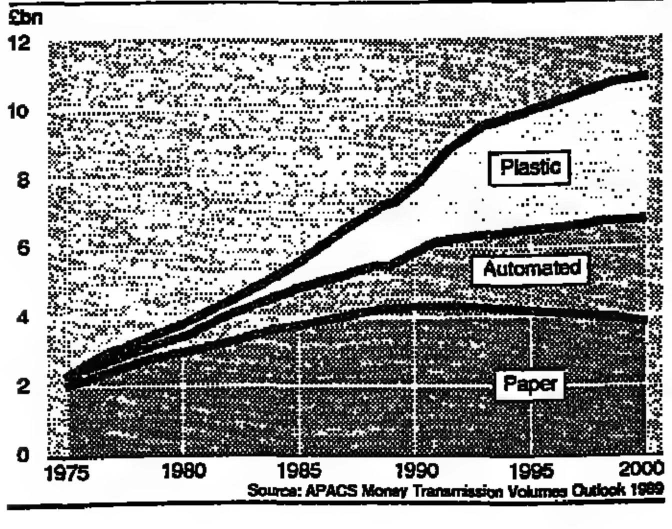
Nnt all Apacs' initiatives work. There are many sceptics who fear that EFTPOS UK will not justify the time and resources devoted to it. "It is the clearing banks' answer to Concorde," says one banker.

LondonClear, a projact launched in 1987 by 36 UK banks with the backing of the Bank of England, would have automated the City's paper-based sterling markets. It had two members from Apacs on its hoard. In August last year, however, it foundered when its backers were unwilling to cover its £12m launch costs.

Meanwhile, Mr Williamson's concerns focus on replacing a

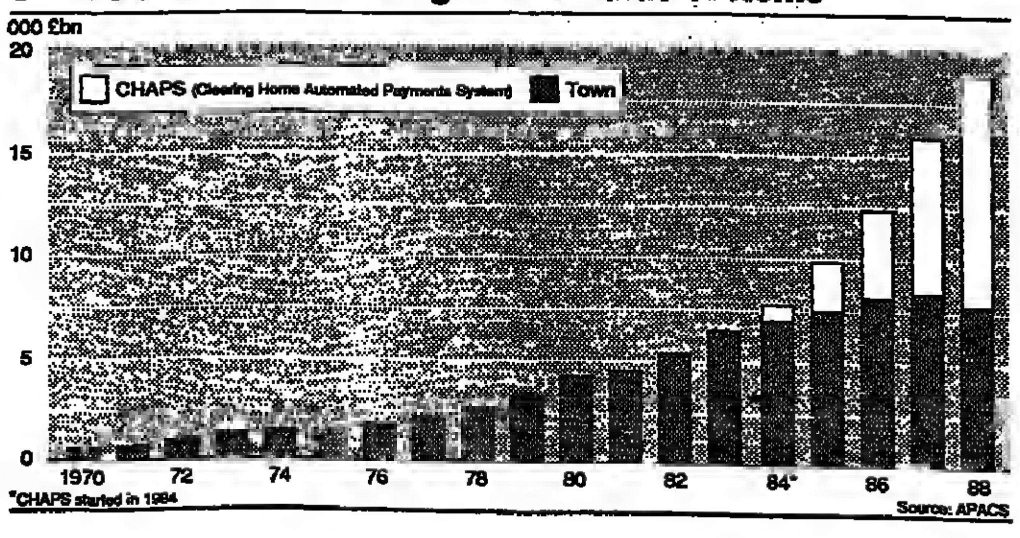
Continued on page 5

UK Banks: different payment methods



Source: APACS Money Transmission Volumes Outlook 1989

CHAPS and Town clearing annual value of items



*CHAPS started in 1984

Source: APACS

The Blue Arrow affair proved a test for the Bank of England

Order in the marketplace

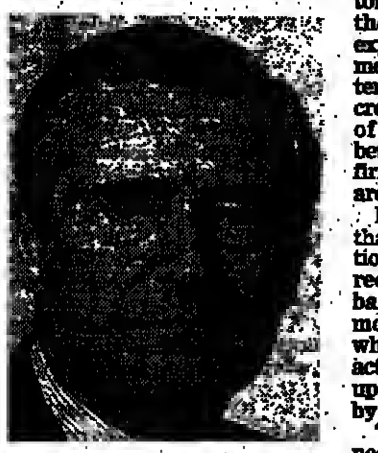
IT USED to be the case that the Governor of the Bank of England ruled the City by twitching his eyebrows. Now ha resorts to less delicate methods, like a good old-fashioned crack of the fist.

The Bank, headed by Mr Robin Leigh-Pemberton, put on its most recent feat of strength last month, when it moved in to clear up the mess left by the County NatWest-Blue Arrow scandal.

It sent letters to several of the people most closely involved — even some of those who had been cleared by the official inquiry — questioning their fitness to hold responsible positions in banks.

This provoked the resignation of one bank director, Mr Jnnathan Cohen, of Charterhouse. The fate of others contacted by the Bank is still unknown, but it was a sharp reminder nf the power conferred on the Bank by statute to pass judgment on members of the banking profession.

Although the Bank itself did not emerge wholly unblamed



Robin Leigh-Pemberton: the risks must be understood

from the Blue Arrow affair (it was not criticised in the report, but there were muttered suggestions in the City that it should have been more alert), it has generally earned credit for its efforts to maintain order in the City's increasingly complex and rowdy markets — of which County-Blue Arrow was in many ways typical.

The intensification of competition, tha diversification by banks into new and unfamiliar — and dangerous — activities, and the growing involvement of foreign banks in key parts of the UK financial system; all this has required the Bank to develop mnch more sophisticated supervisory techniques, and to keep closer watch over the vital signs of banking health.

Added to that are the new considerations raised by the closer integration of Europe'a markets: how does London rate as a financial centre beside new competitors on the continent? Is it too tightly regulated? Or does London, with its greater experience of running sophisticated financial markets, have something to teach other centres?

On all the issues confronting it, the Bank has preferred to veer towards toughness, believing that good discipline is the best medicine in the long run. It set the tightest schedule, for example, for the introduction of the new international bank capital rules, which were agreed by the Basle Committee last year. UK banks had to comply with them in full from the middle of this year, even though the agreement provides for them to be phased in over the next three years. (Japanese banks, hy contrast, will not have to comply in full until March 1993). The Bank has also submitted tough proposals for liquidity ratios.

All this set the banks grumbling; but Mr Leigh-Pemberton declared: "We are prompted not by a desire to be first, but by a need to satisfy ourselves that we understand fully the risks that banks are running... We believe that London benefits from operating as a mature and well-regulated centre."

One question now facing the Bank is how to accommodate the banks' growing securities businesses within the bank supervisory regime. These businesses have mushroomed since the Big Bang in 1986 and, as the County affair showed, can expose their banking parents to new risks and losses.

The prohlem is that these businesses could hardly be more different from banking, either in style or in the unpredictability of their earnings. Although the Bank does supervise them, it does so as a proxy for the Securities and Investments Board, which is the statutory regulator of the securities business.

The Bank believes that good discipline is the best medicine in the long run

That the Bank has misgivings about the present set-up has been evident from pronouncements by key officials. Mr Brian Quinn, the executive director in charge of supervision, said in a speech last May that it had many flaws: although the various regulatory bodies tried to co-operate, they had different levels of experience; there was disagreement over the extent of their territories; and it was hard to create the "level playing-field" of competitiva equality between hanks and securities firms competing in the same areas.

Mr Quinn also pointed out that the UK system of regulation by function was hard to reconcile with the universal banking approach taken by most continental countries, where banking and securities activities are closely wrapped up together, making regulation by institution much easier.

"I think this points to the need for early reassessment of the UK's current system, with a view to adaptations that should ease regulatory burdens and competitive inequalities that could otherwise build up," he said. Since then, the Bank has been quietly putting about the idea that it should have a kind of universal banking responsibility, though this would require changes on a scale which cannot be foreseen at the moment.

Other issues currently exercising the Bank include the perhaps rather humdrum but key matter of banking infrastructure; the efficiency of settlement and clearing systems; and the modernisation of the sterling money markets. Again, these have been given given added importance by the

One issue before the Bank is the humdrum but key matter of banking infrastructure

banks' expanding dealings in securities, and the need to ensure there are no hiccups which could set off a chain reaction through the banking system.

Typical of the Bank'a determination to bring ahont improvements was its decision to organise the computerisation of the money markets after a private-sector initiative, LondonClear, foundered on bank squabbling.

Altogether, tha Bank has built up a fair amount of momentum in the last two years, a marked change from the dark days of 1984 and the failure of Johnson Matthey Bankers, when the Governor was derided in parliament as "that appalling deadbeat".

The Bank'e growing self-confidence even led Sir George Blunden, the deputy governor, to suggest recently, that the Bank should play a leading central-bank role in the integrated EC market after 1992, rather as the New York Fed does as implementer of policy decided by the Fed Board in Washington.

As a leader in international supervisory initiatives, and steward of the EC's largest and most complex financial markets, it was not such a pie-in-the-sky idea for a bank which has shown greater enthusiasm for European financial integration than its own government.

David Lascelles

The role of Apacs

Continued from page 4

flow of paper payments with electronic flows. He appears uncertain to what extent cheque truncation — the system used in Germany and some other countries, whereby cheques are not returned to the branch which issued them but only to a central processing unit, which relays the data on them electronically — will assist the UK payment system, as recommended in the Jack Committee Report on Bank-Customer Relations last spring.

"You can only get rid of some of the paper, but you also only get a marginal benefit from truncation," he says. "What anyone dealing with consumers needs to be aware of is that the market has radically changed. The overwhelming majority of people have bank accounts now. Payments to individuals should be made electronically. The IT revolution has analogies in all major payment areas, and payment is only one part of a wide range of automated information-handling involved in retailing."

A single European market spells opportunity for London. **David Lascelles** looks at . . .

A potential financial capital for the EC

FEW OF the EC proposals for a single market have been followed as keenly by the UK as those for financial eervices. This is, after all, one of Britain'e greatest export strengths. Furthermore, London'a position as a leading financial centre is bound to be affected by the 1992 plan.

So it was not surprising that the EC finance ministers' agreement on the Second Banking Directive earlier this summer — the cornerstone for the single banking market — was treated as a major event. This was the case not just in the City, but also in Whitehall where the Treasury had been striving to ensure that the measure was as favourable as possible to Britain.

Sir Leon Brittan, the EC Commissioner responsible for financial services, described the directive as "a major breakthrough", adding: "We have agreed tha formula for the largest and most unified banking market anywhere in the world."

Having said all that, though, it is far from clear precisely what the measure means for the UK banking industry. The banks themselves are proceeding with great caution. As for its impact on London, opinions vary between those who say it will do great damage and those who think it will actually make it stronger.

The most authoritative opinions so far expressed on the subject came in a survey, conducted by the Bank of England earlier this year, among several hundred banks, insurance companies and professionals. Its main findings were rather bland, but they helped crystallise a consensus within the banking industry. They were that:

□ 1992 offers more opportunities than threats, thongh change will be evolutionary rather than dramatic;

□ A genuine single market will evolve first for major corporate financial products and services (the wholesale markets being international already). But retail markets will remain fragmented for some time because of national characteristics;

□ Competition will intensify, but the greatest challenge may come from outside the EC, from the US, Japan and Switzerland.

Ganerally, the survey showed, the UK financial services industry was aware of the implications of 1992, and confident that it could meet the challenge of intensified competition. Their main worry was that UK financial regulation would drive business out to more congenial centres on the continent.

The Bank'a own assessment was that the industry was taking "a positive and constructive approach", but that this should not lead to complacency because levels of awareness about 1992 varied widely.

Certainly, there is no mistaking the keen interest that banks are taking in the single market. There cannot be one that has not set up a 1992 taskforce. And all of them are keen to enunciate their 1992 strategies. Barclays has sent 1,400 of its managers to special 1992 training seminars. But, so far, their stance has been marked by reticance rathar than aggression, and there is certainly no pattern emerging.

Barclays Bank, for example, already has quite a strong representation in Europe, and is talking of huilding on its branch network for both commercial and retail services (such as credit cards). It also wants to expand BZW, its investment bank.

NatWest needs to strengthen a weaker European hranch network, and has acquired more outlets in Spain and France. Bnt it is looking for something more substantial.

Midland has concentrated more on the corporate banking side by stressing its existing operations in Germany, France and Switzerland, to which it recently added a stake in Euromobiliare, an Italian investment bank.

The most widely trumpeted alliance is that made by the Royal Bank of Scotland with Banco Santander of Spain (*see below*).

The merchant banks probably see more immediate gains to be made from 1992 than the clearers, particularly if they can cash in on an expected cross-border merger boom. They have been busy building up advisory services, and in some cases, dealing networks, across the continent.

Mr Guy Dawson, head of corporate finance at Morgan Grenfell, predicts that the biggest flows will be in European companies buying into the UK market, which is the most accessible in the EC.

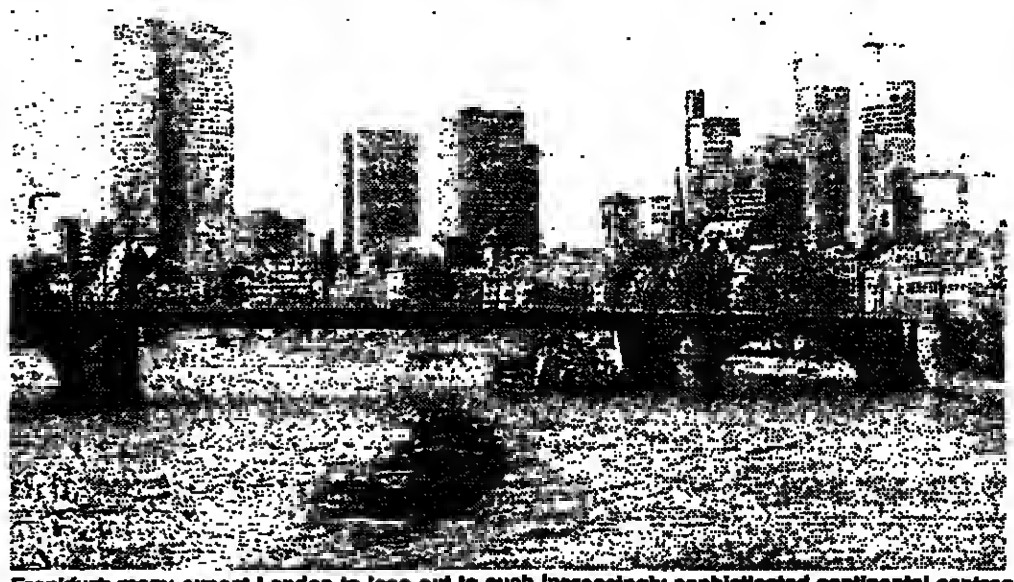
The most dramatic 1992 event may, however, result from the clearing banks' recent decision to entertain offers for the Yorkshire Bank, the highly profitable regional bank owned by four of them. The sale of the Yorkshire would give a foreign bank a rare opportunity to enter the UK retail banking market, and reports suggest that many of them are casting an eye over it. This would confirm, as some surveys have shown, that the UK ranks among the more attractive markets for banks seeking to expand in the EC.

Whether the City of London itself will gain or lose in attraction after 1992 has become an intense issue. In theory, there should be little difference, because all EC markets will become subject to the same regime, so no financial centre will enjoy unique advantages.

But many people expect London to lose out for a number of reasons. Continental centres, like Paris and Frankfurt, have become much more sophisticated, and want to lure business over. The UK's coolness towards monetary union could also leave it outside key financial developments. And the UK's financial regulation and operating costs are more burdensome.

Against that, however, others argue that banks and financial institutions have invested vast sums in their London operations, and this will discourage them from moving elsewhere. Also, London's lead in terms of personnel and skills is enormous. As for the monetary union argument, Britain's earlier aloofness from financial developments on the continent does not seem to have cost it any business so far.

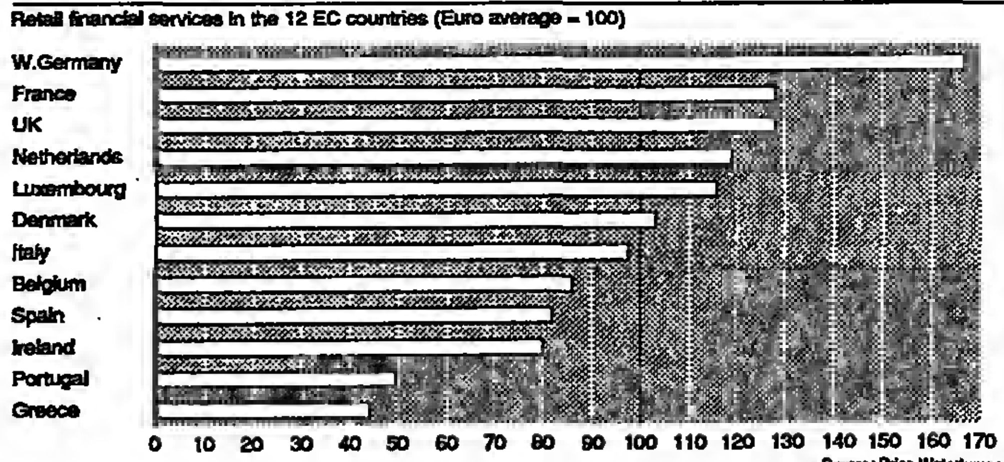
Indeed, there is even a case for expecting that London will benefit substantially from 1992 by assuming the position of financial capital for the EC as a whole. This would depend largely on whether the most liquid markets for big company stocks, foreign exchange and other financial instruments acknowledged London's gravitational pull. If they did, other financial capitals might be relegated to the status of regional centres.



Frankfurt: many expect London to lose out to such increasingly sophisticated continental centres

Comparative costs of establishment

Retail financial services in the 12 EC countries (Euro average = 100)



Source: Price Waterhouse

Profile: **Royal Bank of Scotland** — a Spanish link, a US purchase

Resources pooled to tackle Europe

FOR A so-called regional bank, the Royal Bank of Scotland has recently been conspicuously active on the international scene.

Its tie-up with Banco Santander of Spain is one of the few specific 1992 deals so far done by any UK bank. But just to prove that it does not merely have Europe in its sights, the Edinburgh-based bank has also just bought a bank in the US, Citizens Financial of Rhode Island.

Under the Spanish link, Santander took 10 per cent of the Royal Bank, and the Royal 2.5 per cent of Santander. Santander is also intending to make a long-term loan of $200m to the Royal. Both banks are roughly the same size, with just over £1bn of equity each and profits of £310m.

Since the deal was signed at the end of last year, the two partners have set up branch-sharing arrangements, exchanged personnel, and launched a number of joint ventures in areas like franchising and venture capital. A fortnight ago, they opened a joint bank in Gibraltar. They also have plans to work jointly in Germany, Belgium and later France.

The link has been institutionalised through regular top-level meetings between Mr Charles Winter, the Royal's chief executive, and his opposite number, Mr Emilio Botin. If they cannot actually meet in the flesh, they can use a newly inaugurated video-conferencing link.

The aim of the deal is to pool the resources of two medium-sized European banks, to tackle the EC single market more forcefully than they could on their own. Although the deal has been seen as typical of alliances which are likely to spring up between the smaller European banks as the single market takes shape, few others have yet materialised. Other bankers say they are cautious, because such alliances only work where banks and their staff truly hit it off with each other.

The Royal Bank's $440m acquisition of Citizens has quite a different purpose. This is intended to diversify its business base away from the UK, rather than bring an ally for a joint assault on the US market. In fact, there will probably be relatively little referral business between the two banks.

Citizens is a conservatively managed community bank. It is small, with $2.8bn in assets, but it sees expansion coming mainly through acquisition as deregulation opens up the New England market, according to Mr George Graboys, the president and chief executive officer. He also sees the link with the Royal providing his bank with an international edge, which his local competitors lack.

It was a bold move for the Royal, coming shortly after the bruised withdrawal of all but one of the big UK clearers from the US retail market. But the Royal claims that Citizens is a solid and soundly-run institution with good prospects.

It was a particular point of pride for the Royal that it managed to do both these deals without having to resort to its shareholders for more money. The funding will come partly from a $230m preference share issue in the US market. The $200m from Santander will also help.

These deals also have the advantage for the Royal that they bring it new friends and increase its size, making it that much less attractive to much-rumoured takeover.

David Lascelles

□ CHARLES WINTER
A newly-inaugurated . . .

EMILIO BOTIN □
. . . video-conference link

OFFSHORE CENTRES: they may not become a wives' haven

Islanders can be choosy

THE OFFSHORE financial industry thrives on niche business created by the excesses of onshore regulation.

One such fiscal anomaly is now receiving the attention of financiers on the three main UK offshore centres, the two Channel Islands Jersey and Guernsey, and the Isle of Man.

Next year, the taxation of husbands and wives will become separated in the UK, creating an opportunity for non-working wives to set off their personal allowance against investment income. But mainland bank and building society accounts only pay interest after deduction of non-recoverable tax at a special composite rate.

One convenient answer for wives would be to set up offshore accounts. But not all the offshore centres are convinced that this is a category of business they want to attract, partly because these customers are not the sort of "high net worth" individuals they nowadays seek, and partly because they want to reduce their association with tax avoidance, however legitimate.

These offshore centres are now all booming, to the extent that they can afford to be fussy about the kind of business they accommodate. Although the 1987 crash had a damaging effect on offshore stockbroking and fund management, there has been a recovery. Meanwhile, most offshore banks continue to prosper, although one or two American banks have decided the Channel Islands have become too expensive for them.

One or two American banks have found the Channel Islands have become too expensive

It remains very difficult for incoming banks to get licences, even in the Isle of Man, where the economy was depressed until quite recently. The Isle of Man authorities are therefore now promoting the concept of "offshore banking licences" in what appears to be an attempt to emulate the Guernsey innovation which brought in "managed banks" a few years ago. These are piggy-back operations, whereby an offshore banking branch can operate the books of one or more separate banks, so that the same number of staff can, in theory, run several times as many banks.

Guernsey has only attracted four managed banks so far, but it looks as though the fifth may be a notable capture – none other than Taiyo Kobe, set to merge with Mitsui Bank to form the world's second largest bank.

Official spokesmen are non-committal on the subject, but informed Guernsey financiers are convinced that Taiyo Kobe will early in the new year open a branch to be managed by Banca della Svizzera Italiana, which itself opened in the island in July this year.

If so, it will represent a notable first arrival of a Japanese bank in offshore UK, although Japanese life assurance companies and fund managers are already active in Guernsey, and a significant volume of Japanese corporate funding is now being channelled through Jersey.

The Channel Islands and the Isle of Man would also like to make more of an impact in continental Europe, where centres like Luxembourg and Liechtenstein are dominant in the "offshore" sector. But the UK offshore islands are not part of the European Community, so they have certain disadvantages in going for continental markets, but, they hope, compensating advantages elsewhere.

Judging by figures for bank deposits, the offshore banking industry remains quite buoyant. Jersey's bank deposits rose by £5bn to £31bn during 1988, and increased further to £33bn in the first half of 1988. Meanwhile, Guernsey's bank deposits rose by £1bn to £11bn in the January-June 1989 period, and Manx deposits have also been climbing fast from a smaller base, reaching £5.2bn by June (having doubled inside 3½ years).

Will there be benefits from the growth of mainland married women's accounts? The UK clearing banks and many other banks are well placed to develop such business, although it is of a low value-added nature and not always attractive. The Jersey authorities, for instance, will be concerned if bank accounts paying gross interest are marketed at all heavily on the mainland. Guernsey, however, is thought to take a more neutral view.

The building societies' position is interesting in the context of separate taxation

The position of the UK building societies is interesting in the context of separate taxation. Several have opened up offshore in the past couple of years, primarily to raise offshore deposits, but now they may see potential in offering gross interest to mainland investors. However, the mainland Building Societies Commission does not allow them to do this at present. Only Abbey National has escaped this curb, by turning itself into a bank.

The Halifax is now the only building society in Jersey, but there are five in the Isle of Man. For Guernsey, the Commission's attitude has proved inconvenient, because the Portman & Wessex is apparently having second thoughts about setting up on Alderney, which is within the Bailiwick. This leaves Guernsey with only the Bristol & West. But if the BSC were to prove more flexible, building societies might become more active offshore.

Barry Riley

THE REGIONS: FT correspondents report how the banks are catering to their local specialised markets

Market limitations prompt the clearers to look south

■ SCOTLAND: the size of the market sets the clearers a problem, says James Buxton

WHEN THE Economist newspaper recently asked 1,760 leading businessmen and financial analysts what companies they most admired, the winner in the banking category was, by a short head, Bank of Scotland.

They particularly appreciated its ability to innovate, and thereby win customers in areas where it does not have branches.

Banks based in Scotland have a problem. The Scottish domestic market is relatively small and less buoyant than that of the south-east of England. So all four Scottish clearing banks – Bank of Scotland, Royal Bank of Scotland, Clydesdale and TSB Scotland – have to look south.

The Royal Bank of Scotland, the largest, has 350 branches in England and Wales, against 450 in Scotland, thanks to its 1985 merger with Williams and Glyn's. Already the sixth largest British clearing bank, the Royal Bank has ambitions to become yet bigger. It wants more branches south of the border – it is already opening between eight and 10 there a year – while the number in Scotland should gradually fall as surplus branches are merged or closed.

Alone of the Scottish banks, the Royal has expanded overseas in the past year and a half, buying a bank in the US – Citizens Financial of Rhode Island – and making a strategic alliance with Banco Santander of Spain, through which it is tackling the market in continental Europe.

The approach to the English market of its rival, Bank of Scotland, is dictated by the fact that it has only about a dozen branches south of the border, and could not realistically increase that number dramatically.

Instead, it targets particular sectors. For example, it markets retail services through about 30 joint ventures with other organisations – the most significant include the Halifax Building Society and the Automobile Association.

It is one of the leading banks providing debt for UK management buy-outs, and it believes it has a larger UK mortgage portfolio than the big four clearers. But perhaps most ingenious is its Home and Office Banking System (HOBS), which enables customers to bank with Bank of Scotland even if they nowhere near a branch.

Mr Bruce Pattullo, group chief executive, claims that 45 per cent of Bank of Scotland's borrowers are now in England and Wales, and that it has 4.25 per cent of UK retail banking business. In the year to the end of February 1989, its portfolio of advances and leases grew by 30 per cent – faster than the average of the London-based clearing banks.

Unlike the Royal Bank, Bank of Scotland has not been successful in making acquisitions abroad: earlier this year it failed to acquire M Corp, the failed Texas hanking group, largely because of its very prudent approach.

It is not in a hurry to make an acquisition in continental Europe, believing the banking markets there to be either oligarchic or over-fragmented, and the prices of potential acquisitions excessive because of 1992 "hype."

Clydesdale Bank, bought from the Midland in 1987 by National Australia Bank, is at an earlier stage of development than Bank of Scotland. For years its ambitions, both in Scotland and outside, were severely restricted. But when NAB took over, it spoke of using the Clydesdale to spearhead its attack on the English market and later the continental market.

But the current emphasis is on consolidating its Scottish base – "aiming to be a quality regional bank, performing to the standards of our peer group in Scotland," in the words of Mr Ritchie Robertson, general manager for retail banking, earlier this year.

Mr Frank Davis, until recently NAB's senior executive with the Clydesdale, told Scottish Business Insider magazine this month that expansion south of the border would be confined to specific market areas, in which the bank has an advantage over the competition. And Europe, it appears, has greatly receded: "I have some difficulty in envisaging this bank in Europe," said Mr Davis.

In one sense, TSB Scotland is increasing its penetration south of the border: in the July reorganisation of TSB Bank's UK structure, TSB Scotland is to take control of TSB's banking activities in the north-east of England, so that Edinburgh will be one of TSB Bank's three profit centres (along with the south of England; and the midlands, north-west and Northern Ireland). TSB Scotland will also retain its regional board and head office for Scotland.

But critics in Scotland have seen the changes as part of a dilution of TSB Scotland's autonomy and of its Scottish identity.

Following an earlier reorganisation this year, TSB Scotland no longer reports to TSB Group but to its subsidiary, TSB Bank; and Mr Eric Wilson, its chief executive, lost his seat on the TSB Group main board. The Scottish bank appears to be losing some of the control it once had over products and pricing.

The detailed consequences of the latest reorganisation are still being studied, but TSB Scotland has promised that there will be no net job losses. None of this has reassnred Scottish politicians, who believe that TSB is reneging on promises of antonomy made before it was floated in 1986.

Bruce Pattullo, group chief executive, Bank of Scotland

Competition leads to more flexible hours

■ NORTHERN IRELAND: bankers refute allegations of outdated working practices

FIVE MAIN banks operate in Northern Ireland.

The Northern Bank, owned by National Australia, is by far the biggest, conducting about half of clearing bank lending in the province, *writes our Northern Ireland correspondent*. The Ulster Bank, owned by NatWest, has captured about a quarter of bank business in the province. The others are the Bank of Ireland, Allied Irish Bank and the TSB Northern Ireland.

The first four belong to the Northern Ireland Bankers Association, of which the TSB is not a member, though it is associated with its clearing arrangements.

Mr Rafton Pounder, secretary of NIBA, believes banks are geared to meeting the increasingly sophisticated demands of the personal and corporate customer. Local banks were doing their utmost to shrug off the "ivory tower" mentality, he said, and to promote the philosophy of customer-care.

"Whether it is business advice on expansion plans, long-term financial strategy, or guidance on person products such as home mortgages, insurance, or pensions, our members are well placed to meet the demands."

Certainly, the province's bankers are in an aggressive mood, tired of being lectured about their business, especially by those with no direct involvement in the industry. Government charges that they have tolerated outdated working practices for too long, and lag behind the rest of the UK in developing new financial products, are dismissed.

While the relatively small population limits the level of technological development that is cost-effective, local banks argue they have not been slow to adapt.

A sector of the economy which, traditionally, has been slow to accept change, has had to take steps to ensure it is not left behind by competition from new players in the financial market-place. The latest computer technology is being deployed, to improve the service provided to both the personal and corporate customer.

Within the next month, the main clearing banks will link their cash-dispensing machines under one system. Customers will be able to use automatic teller machines of either side of the Irish border, regardless of which bank they use.

However, the most important development has been the acceptance of more flexible working arrangements. Until about 18 months ago, banks in Northern Ireland did not open at lunchtime; but the realisation that it was essential, in order to meet competition from building societies and other financial institutions for traditional bank business, made its introduction inevitable.

The explosion in consumer credit and the acceptance that banks are now dealing with a generation that is comfortable with plastic cards and electronic transactions has made the technological revolution in banking irresistible.

Yet in spite of satisfactory performances – the four members of NIBA have all recently shown profit increases – there is no room for complacency. Competition in the personal lending market, from building societies and major retailers, means that local banks must further streamline their operations to maintain their share of the market.

In an environment where customer service is of paramount importance, the drive is on to get more bank staff involved on a one-to-one basis. The average branch probably only has a third of staff involved in significant customer contact. The remainder are involved in administrative duties," says Mr Pounder. "It is a ratio which must be reversed."

With many Northern Ireland people enjoying disposable incomes above the national average, because of lower house prices, competition is intense among providers of financial services.

The number of building society branches in the province rose from 28, in 1975, to 103 in 1987, and the expansion of services on offer is increasing customers' choice.

Yet statistics show that banks benefited from the upturn in consumer spending before the hike in interest rates. Coopers and Lybrand's annual review of the Northern Ireland economy showed an increase in the level of bank lending to individuals from £399m, in August 1987, to £503m in August 1988 – an estimated increase of more than 19 per cent in real terms.

Fragmentation starts to show

■ THE NORTH: there may now be too many banks says Ian Hamilton Fazey

THE NORTH of England may well be on its way to a widespread restructuring of the banking industry.

After several years of growth, there may be too many banks for all of them to prosper, especially with economic slowdown and a trickle of newcomers still arriving in search of opportunities.

Growth in financial and professional services has been an important feature of Manchester and Leeds for about five years.

This has followed strong recovery of much of industry and commerce along the transpennine M62 corridor between the M6 and A1. The two cities are now virtually self-sufficient in the sector, each acting as a financial capital for its side of the Pennines, while competing with the other on any attractive deal.

But the quarterly surveys of the north's regional chambers of commerce have this year shown some firm braking on investment plans hy industry as interest rates have bitten.

Coupled with the tightening sqneeze on consumer credit, demand for financial services is faltering, adding to pressures on the banking sector, which have arisen anyway from competition.

The picture is therefore not as sound as many leading banks like to portray, in spite of there now being well over 50 hanks in Manchester and nearly 30 in Leeds, as well as a proliferation of funds offering corporate finance.

The entrepreneurial vigour of many merchant and international banks that have set up in Manchester and Leeds has itself contributed to instability, since it has rocked a traditional regional banking market long dominated by the clearers.

Faced with competition for their corporate customers on one side, the clearers themselves have also been under pressure at the retail end of the market from building societies and other savings institutions as they have asserted themselves in the high streets.

The overall picture is one of market-fragmentation and the emergence of specific niches. The results are beginning to show.

Most of the clearers seem to be cutting out an entire tier of strncture to trim costs. "Regions" based on cities have beeu subsumed into bigger areas. The power of local boards has been downgraded. Business leaders suspect that a centralisation of strategic decision-making is taking place.

Lloyds' concentration of its northern representative office into Leeds has alarmed Manchester, as has the early retirement of the Midlands' senior man in the city.

The top men at Barclays and National Westminster have considerable individual discretion, but business leaders say that "it is not the same" as in the days of Martins and William Deacons, although the Royal Bank of Scotland, which took over the latter's network, is using it to challenge its London-based competitors in the north-west.

In merchant banking and corporate finance markets, the first in – N.M.Rothschild, in Manchester, and Singer and Friedlander in Leeds, both pioneers from the early 1960s – are prospering.

Barclays de Zoete Wedd has grown s firm Manchester base for the north since 1986; Conuty Natwest has heen working hard at retaining existing clients serviced from Manchester and Leeds, in the wake of recent scandal in London; Lloyds is in the process of opening a Leeds-based merchant hanking office this month.

New banks have heen formed, such as Edington in Manchester, while Mynshul Bank has demerged from the Swinton Insurance group, its financier parent.

It looks healthily vigorous, but most are after the same swathe of mainly privately-owned, northern family businesses turning over more than *£5m-7m and making £1m-plus* pretax at the bottom end and doing much better at the top.

Mr Alan Watson, agent for the Bank of England in Manchester, warns: "I think there are a lot of people fishing in the same pool. Thsre may well have to be a shake-out eventually."

The "fish" have turned to locally-based banking services, because many feel the service they get in London has diminished as the latter has developed in international markets.

While this has helped to fuel the growth of appropriate financial and professional services in the north, the question now is whether the good times are coming to an end.

Demand has surged for a good five years, and the industry has rushed to fill it. That demand is ahating, hut the supply of services is still growing.

At the same time, soms international banks, such as those from Japan, set np in the north intending only to do big business at £100m-plus per deal. They have found there is not enough of it around, and that they must look to medium-sized and smaller corporate finance markets for potential profit.

This will add further to over-supply and squeeze, although some foreign banks, such as ABN of the Netherlands, will no douht continue to find places like Manchester good for transacting international deals, because of low overheads and staffing costs compared with Londnn and Amsterdam.

Shaking free of London

■ WALES: financial services are growing in stature, reports Anthony Moreton

UNLIKE THE rest of Britain, Wales does not have a banking network peculiar to the country. Although it houses the Royal Mint, it has never had its own banknotes, snch as exist in Scotland. And the banks are all offshoots of the English or Scottish clearers.

Even the Bank of Wales, the only bank to have Wales in its title, is three-quarters owned hy the Bank of Scotland.

Until recently, the Principality did not even have a financial services industry of any consequence. Most Welsh businessmen went to London for their merchant banking, professional or broking needs.

Bnt there has heen a hig npgrading in the quality of work that can be undertaken in the Welsh capital. Welsh lawyers can undertake almost everything done in London; accountants are on a par with their colleagues in London or nther centres; the hroking community is small, but now linked with the hig provincial gronps – Lyddons, for instance, undertakes all the back-office operations in Cardiff of its parent National Investment Group.

The growing strength of the local financial economy is seen in the way local companies, going public or seeking a management bny-out, increasingly use local services.

When the managers of what was then Aeroquip, a Cardiff snhsidiary nf an American motor industry snpplier, wanted to launch a management huy-out, against competition from a leading West German company, it went to professional advisers in Cardiff rather than London. They turned to 3i. The venture fund group put over £5.25m into the huy-out, which turned the subsidiary into an independent company, Seal Technology Systems.

Mr Martin Paterson, Seal Technology's managing director, believes that having the full range of financial services has henefited Cardiff enormonsly: "From the management side, it makes it a lot easier if local services are available. They understand the area and they understand our needs. We do not have to fit meetings into the tight schedules thet are necessary if yon *have to travel to London.*"

The growth of the Welsh financial sector may be judged from 3i's own success in Cardiff. Last year the gronp prodnced a record investment of £16.5m in 40 separate transactions; in the first half of this year, it was on target to beat those figures, having invested £9.5m in 24 concerns.

It has three more management buy-onts it is wnrking on at the moment and a large capital transaction in a growth company "maturing nicely", in the words of Mr Chris Rowlands, the Walsh director.

The growing importance of south-east Wales as a financial centre has been helped by an initiative hy Mr Peter Walker, ths Secretary of State for Wales, to bring more operators to the area. One of the successes has been the arrival in Cardiff of N.M.Rothschild, the merchant hank. In its first year, Rothschild has done good corporste bnsiness, thongh it would like to do more in asset management.

The last two years has also seen the arrival of TSB's general insurance arm in Newport, and National Provident Institution's pension work in Cardiff.

"Sonth Wales is growing very fast as a financial-services area," says Mr Peter Craddock, director of insurance broker Willis Wrightson. "The Welsh economy is expanding, and new companies are coming into the area, all of which instils confidence."

The Welsh Venture Capital Fund, a co-operative effort between the Welsh Development Agency and the Development Capital Group (a subsidiary of Lazards), has all but exhausted its first fund, and is now looking for backers for a second one.

Mr Rowlands believes South Wales has so far survived the ripple in the British economy and, with a little lnck, will cnme through the cyclical downtnrn relatively unscathed: "The great strategic changes in the economy, which took such a toll in the early 1980s with the closures *in coal and steel, have largely* worked thamselves out, and what we have in the area now are growth concerns."

Mr Roger Thomas, a senior partner in lawyers Phillips and Buck, which has its own banking advisory centre under another partner, Mr Kevin Doolan, has another explanation for the growth.

He believes the strength of the economy can be traced to the rise of independent concerus and the arrival of overseas companies. "American and Japanese incomers are not wedded to doing their business in London," he says, "and so they look locally for professional and other advice.

"Those companies that have grown locally, or become privatised, havs also looked locally for assistance. Most nationalised concerns had centralised policies over matters such as pension funds. Bnt, once they became part of the private sector, a lot of decision-making was delegated down the line, and local managers could seek advice or invest funds locally."

Cardiff ... where more financial services are available

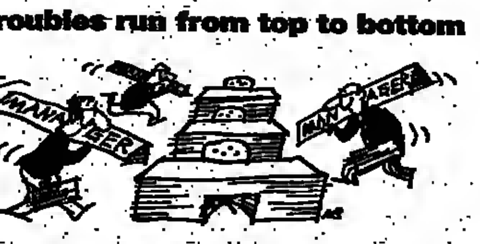
FINANCIAL TIMES
COMPANIES & MARKETS
Monday September 25 1989

INSIDE

Jim Guerin: the memory lingers on

Jim Guerin went to ground when Ferranti, the UK electronics group, said it was teetering on the brink of financial disaster because of problems at International Signal and Control, tha company ha founded in 1971 and which merged with Ferranti in 1987. Now this man, who lives to the full the cloak-and-dagger life *of the international arms trade*, faces a choice: Should he keep the press, public and former fans guessing where he is, or should he turn up in his old home town of Lancaster, Pennsylvania to give evidence, as scheduled, in a suit filed against him by a former colleagua? Roderick Oram explains how, even though the man who gave life and character to ISC is gone, his spirit and the deep loyalty he generated appear to endure. **Page 22**

Troubles run from top to bottom



Since Jack Welch became chairman of US General Electric in 1981, tha company has become an international model of revitalisation, speedy decision-making and — in theory — dismantled bureaucracy. Now, however, even the hard-driving Welch has admitted in public what his critics have said all along: that it is all too easy to "dalayer" top management, without paying enough attention to the effect on peopla further down the organisation — and therefore on the company's long-term welfare, writes Christopher Lorenz. **Page 38**

Junk shines under cloudless sky

Depending on which side of the street they played last week, US investors had a marked choice in credit market conditions. Quality seekers found prices of Treasury bonds slipping further in thin trading, while yield seekers, in contrast, had a fiald day. News that Campeau, the shaky Canadian real estate and retailing group, was getting help from Olympia & York, the legendary bottom fisher, blew the clouds away from the junk bond market and prices soared. **Page 24**

The debt owed to Lewis Preston

Anatole Kaletsky explains how J.P. Morgan's chairman has paved the way for an end to the crisis over loans made by the banks to Third World countries


Lewis Preston: throwing down the gauntlet

Even before last week Mr Lewis Preston was probably the most respected banker in America. As chairman of J.P. Morgan & Company, the title was more or less ex officio his. Last Thursday night, however, he assured himself a personal place in financial history, beyond his hierarchical position at the most celebrated US bank.

In an elaborate two-page announcement he said the Morgan bank had added $2bn to its reserves for credit losses in the Third World. The purpose of the exercise, which was to cost Morgan shareholders e net loss of $1.8bn in the current quarter, was to increase the bank's provisions against medium and long-term lending to the developing countries from about 40 to 100 per cent. Cutting through the banking jargon, the fundamental meaning of tha Morgan move was simple. It marked the beginning of the end of the Third World debt crisis.

In laymen's terms, the Morgan bank was putting itself in a position to write off every penny it had lent to governments in Brazil, Mexico, Argentina, the Philippines and other insolvent Third World countries. Only the trade-related short-term lending, which accounts for about 30 per cent of Morgan's portfolio of loans to these countries, would not be covered by the reserves.

It was not doing this for any moral or political reason, but on account of a cold business judgment. Such was the depth of horror in the stockmarket about tha US banks' past blunders in the developing countries, that any bank which could afford to do so was better off abandoning billions of dollars worth of lending, rather than straining to preserve the hope that Third World governments would ultimately repay their debts. Unlike the other US banks which announced more modest reserve increases last week, Morgan took the policy to its logical conclusion and put the Third World debt problem completely behind it.

No new equity issues were necessary or contemplated, Mr Preston said. This demonstration of financial muscle was obviously meant to impress investors — and it did, as evidenced by the jump in Morgan's share price last week. But what impact was it supposed to have on the other actors in the Third World debt drama? On this question, analysts are deeply divided.

The problem of interpretation arises because of the nature of bank accounting. Morgan's decision to increase its "allowance for credit losses" does not mean that it will simply abandon all its claims on Third World countries. Morgan's decision means only that it has prepared itself to lose money. Legally, the debtor must continue to repay regardless of how the bank chooses to account for the obligation. Only if a loan is formally "forgiven" or sold back to the borrower at a discount does the legal obligation to pay in full come to an end.

The essence of the debt strategy put forward this spring by Mr Nicholas Brady, the US Treasury Secretary, has been to persuade bankers to forgive a part of the Third World's debts in exchange for better security on their remaining obligations and policy reforms in the countries concerned. In the case of Mexico, the only country to have negotiated a "Brady package", banks have been offered the choice between swapping their loans for long-term bonds with a face value of 65 cents on the dollar or lending new money equivalent to 25 per cent of their exposure over four years.

The Morgan announcement seems to threaten the success of the Mexico package because the establishment of large reserves against existing loans implies strongly that Morgan will swap its loans at a discount, rather than lending new money. Other US banks are likely to follow suit, with the exception of Citicorp, the conspicuous hard-liner in the US banking industry's response to the debt crisis. In that case the whole Mexican package could fall apart, because the loan discounts and new money advances are inextricably connected. If fewer banks than expected came up with new money, then Mexico would be unable to make ends meet despite the discounts on its other loans.

This problem has led many analysts on Wall Street to conclude that Morgan's action will put greater pressure on Mexico and other countries to accept smaller discounts — and also intensify demands that the US Treasury, the IMF and World Bank provide the developing countries with more financial assistance in renegotiating their bank loans.

The truth seems to be the opposite. If Morgan and other banks refuse to advance new money, then Mexico will have to demand bigger discounts on its loans — and this will be justified by market prices, which will presumably fall if fewer banks maintain or raise their exposure. As for the US Treasury and IMF, their financial contributions to the debt restructuring process could be diminished if the banks accepted larger discounts.

While Wall Street analysts may still be hazy on these negotiating positions, the bankers and the officials in Washington understand them well. This is why Treasury officials informally expressed delight with Morgan's new reserves, pointing out that it would enable the bank to accept bigger debt discounts. And why Mr Preston noted that Morgan hoped to work in future as an impartial adviser to developing countries.

If Mr Preston was throwing down the gauntlet to anyone, it was perhaps not the Mexican government or the US Treasury, but the rest of the US banking industry, and Citicorp in particular. Following Morgan's lead other US banks will probably now face reality and start compromising on Third World debt.

Peace in the mountains, war on the Hill

By Anthony Harris in Washington

The very encouraging news from the Grand Tetons, where old disputes between the superpowers seem to be evaporating in the mountain air, might lead you to expect a kinder, gentler Washington; but you would be wrong. Congress was still in a bipartisan mood when its members took their summer break; but they have returned in a very different mood.

It promises well for world peace, but not so well for the US economy. The first partisan shots were actually fired over foreign policy, but the real cause of the hostilities is much more general. The Democrats can still win elections, as they showed to intense Republican disappointment in ex-Speaker Jim Wright's old seat in Texas; but in all other respects the party is in terrible shape, and it knows it.

It has no leader, and no clear policy identity, and fears dying the death of a thousand Congressional scandals. In these circumstances the continued high popularity of President George Bush — whose poll ratings are higher even than those of President Reagan is his best days — is a cause of intense frustration. The fact that the President seems to be achieving peace and prosperity without actually doing anything very visible makes life very difficult for the opposition.

The first whiff of an issue emerged with what was generally seen as Mr Bush's niggardly and over-cautious response to the sudden emergence of democracy is Poland and Hungary; the Democrats, assisted by thoughtful but ill-judged speech from the Assistant Secretary of State, Mr Lawrence Eagleburger, accused the Administration of being nostalgic for the cold war. Mr Baker has no doubt buried this issue in the last two days (and will certainly have been aware of the domestic implications of his talks); but the opposition still thinks it has a more general issue. Mr Bush appears vulnerable only when he seeks to placate his right wing; the Democrats begin to see an opportunity to make conservatism into a C-word to take the place of the L-word, liberalism, which undermined Mr Dukakis.

The evidence at the moment supports these bopes. The most striking example is the abortion issue. During the campaign Mr Bush made some fairly firm commitments to an effort to reverse the famous Roe v Wade judgement, which established womens' right to choice. At that time the right-to-life campaign was making all the electoral noise, and it provided enthusiastic doorstep support. However, the threat mobilised the womens' rights movement, and recent polls and elections have strongly suggested that they have the votes.

Democrats are stressing the right to choose in their television advertising, and Republican candidates are backing away from pro-life positions as fast as they can. This is not an isolated case. Mr Bush seems to feel compelled to strike right-wing attitudes to placate his supporters, but these efforts seem to be unpopular.

His proposal for a constitutional amendment, no less, to protect the flag seems to have been laughed off the agenda, and he is reported to be quite worried lest anyone takes his scheme for exploring Mars too seriously. (In fact, they make jokes about it.)

Even where the public supports tough attitudes, as in the drugs crisis, he is found unconvincing; the Democrats have proposed in the Budget reconciliations bill to put more money where the President's mouth is, and manoeuvred Mr Bush into the awkward position of threatening to veto "excessive" support for his own programme.

Which brings us, at last, to the fight over economic policy. This messy affair started with what appeared to be a Republican triumph. The Administration, and especially the Budget Director, Mr Richard Darman, who is proving to be a formidable political operator, managed to out-manoeuvre the Chairman of Ways and Means, Rep Dan Rostenkowski, and win a committee vote to support the President's proposed cut in the capital gains tax. What is more, they won over enough conservative Democrats to win a similar vote in the House.

The Democratic leadership has seen, rather late in the day, that their only hope lies in floating a more popular rival proposal, and they may have found it in Senator Bentsen's scheme to revive a tax shelter for personal savings, the Individual Retirement Account, which was largely emasculated in the tax reform of 1986.

The House (but not the Senate) wants to find the $15bn this would cost by raising the top marginal tax rate to 33 per cent, on incomes over $250,000 (it already applies at somewhat lower levels). This proposal, if the Democrats can agree to support it, would again leave Mr Bush threatening to veto what is, according to the polls, a popular proposal; it could therefore prove to be pretty effective politics.

It is bad economics, though. If the opposition had simply killed the capital gains proposal, or limited it to indexing the tax, then the principle of the 1986 reform, which was intended to prevent the tax system from distorting economic decisions, would have been left intact. Now it seems certain that the 1990 budget, whichever side prevails, will reintroduce tax avoidance as a major US incentive.

Meanwhile, nothing at all will have been achieved to tackle what more and more authorities, from liberal-minded economists and senior member of the Administration, see as the big existing incentive problem in the US system: its bias toward short-term returns. This is almost an obsession with the Treasury Secretary. Mr Nicholas Brady is a merchant banker of the old school; Dillon Read in its great days was as discreet and well-connected as the great London houses. He find's today's Wall Street uncongenial and a bit frightening.

He would like to regulate it back to civilisation, as his report on the 1987 crash showed, and he would also like to amend the tax system to reduce the incentive to corporate debt. The trouble is that any plausible scheme would cost a great deal; and there is no revenue available to finance it.

The Democrats are floating a scheme of their own to tax the short-term gains of pension funds, which would be a poor second best. It seems to have Mr Brady's private support as a stop-gap; but this is a new tax, and will also no doubt appear on the veto list. It is thus part of the whole game of brinkmanship which is now emerging, in which each side tries to blackmail the other by digging in and so triggering the automatic Gramm-Rudman cuts which would damage everybody's most treasured programmes.

This process may or may not produce an agreed budget — it probably will, at the 13th hour, as it did two years ago. It is certainly a rotten way to make economic policy.

Economics Notebook

Concern that unites the IMF

THE International Monetary Fund and the large industrial countries that are its leading shareholders have their fair share of differences.

But on the issue of the overdue financial obligations to the Fund that have been accumulated by a small number of poor developing countries, they are united in deep concern. Such arrears are growing strongly.

The IMF's recent annual report showed that arrears of six months or more had increased rapidly to around $3.5bn (£2.21bn) by the end of April this year from $2.37bn the year before.

It is of limited comfort that, according to Mr Michel Camdessus, the IMF's managing director, the total number of countries with overdue payments has fallen to 13 — the lowest level for seven years — from 26 at the end of 1987.

The arrears may look small compared with the $1,132bn owed by all indebted developing countries.

They are, however, large when set against the $31.9bn of IMF credit outstanding at the end of the Fund's last financial year.

The arrears question raises significant issues of principle about the purpose of the IMF. It is cited by the US as one reason to withhold a decision on how much extra resources to give the Fund under the planned increase in quotas or membership subscriptions.

At a practical level, solving the arrears problem by trying to bring the countries with overdue obligations back into the world financial system, is proving extremely difficult and time consuming.

The arrears are turning the IMF into an involuntary supplier of long-term development finance — a far cry from the Fund's main financing function as a provider of short-term balance of payments support.

They also have the damaging effect of soon forcing the Fund to cease helping a country in arrears.

The large arrears increasingly appear a threat to the idea of mutual responsibility that underpins the working of the Fund. They impose strains on the rest of the membership, most of which are poor countries, because the Fund has imposed levies on creditor and debtor countries to provide against possible losses arising from the arrears.

Last week, Mr Camdessus pointed out the significance of these levies to a journalist from Peru, which has deliberately run up arrears of more than $700m.

He said 85 countries, including nine Latin American nations poorer than Peru, now have to pay more in interest to the Fund to offset the imbalance caused by overdue obligations.

Among the Fund's creditor countries, the issue is particularly vexing for the US.

Any US administration has problems obtaining Congressional approval for a boost to the resources of multilateral institutions such as the Fund and World Bank.

With the threat of sequestration of US government programmes drawing uaarar under the Gramm-Rudman-Hollings budget deficit reduction law, the US Treasury is ill disposed to back an increase in IMF quotas or subscription rights so long as arrears exist.

The IMF is, therefore, under particular pressure from its largest shareholder to demonstrate that it has the arrears problem under control.

And the jury is still out on that question. A system of support groups is being set up to tackle the problem.

The idea is that a friendly developed country takes a developing nation under its wing and tries to obtain bridging finance from other well disposed nations, while the developing country institutes reforms to prepare it for the day when it can be brought back into the IMF fold.

Canada was the first industrial country to act and set up a support group for Guyana. Italy is making efforts on behalf of Somalia.

Support groups are believed to be under discussion for Vietnam, Zambia and Sierra Leone.

But, although Canada says it is progressing in its efforts with Guyana, all the evidence suggests that support groups are difficult to operate.

As one indicator of the problems, the weekend meeting of the Group of Seven finance ministers and central bankers asked senior officials to investigate how the so-called co-operative approach involving support groups is operating and to suggest alternatives.

It is uncertain, however, whether the group will look into why the countries in arrears were given such large-scale IMF support without adequate safeguards in the first place.

Some cases of arrears are the consequence of US policy choices. Vietnam's problems are partly caused by a US freeze on former South Vietnamese bank assets. Panama's difficulties reflect US sanctions against the undemocratic regime of General Manuel Noriega.

European monetary officials say that in the case of Sudan, which owed around $955m at the end of April, large IMF loans were made on less than sound economic grounds following heavy pressure from the US.

Peter Norman.

THIS WEEK

ALL EYES this week will be on the UK current account figures for August, due out tomorrow, and on data from Japan which will provide fresh evidence of the state of the Japanese economy.

US markets are likely to be focusing on tomorrow's durable goods orders for August — a modest recovery of 0.5 per cent is anticipated — and the leading indicators for August, which, due out on Friday, are expected to show a small rise of 0.3 per cent, according to MMS International, the financial research company.

In the UK, analysts are confident that the underlying improvement seen in British trade is likely to be sustained with export volume growth rising and import growth falling. The consensus of analysts' forecasts for the UK current account, is a deficit of £1.6bn ($2.5bn), compared with £2.1bn in July.

Analysts doubt whether a sharp rise in the deficit would persuade the Government to raise base rates further. But a shock figure could undermine sterling and throw into doubt the Government's commitment to a firm exchange rate.

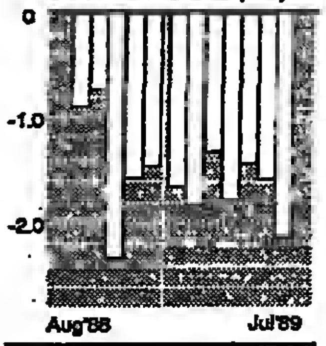
This week will be a busy one for observers of the Japanese economy, with four important sets of figures due for release. On Wednesday industrial production data for August is published, with a 7.7 per cent increase on the same period last year forecast by the Nomura Research Institute.

On Friday the consumer price index for August will be released. Analysts are expecting it to show year-on-year growth of 2.6 per cent, down from July's 3 per cent annual rate. Also on Friday will come the August current account figures, with Japan's trade surplus forecast to fall from July's $4.1bn to $3bn.

In France the unemployment rate for August will be published today, and forecasts are that it will remain at 10 per cent of the working population. Last week's postponed August trade figures might also be released in Paris this week, and a deficit of FFr5bn ($759m) would meet expectations.

UK trade deficit

Current account balance (£bn)



The figure for the West German cost of living index for September is also due out some time this week. Seasonal factors, notably food prices, traditionally restrain the September increase, so analysts are expecting a modest rise of 0.1 per cent. This would push up the year-on-year rate to 3 per cent.

The International Monetary Fund/World Bank meetings in Washington continue. Today the Interim Committee and Development Committee hold meetings.

Other events and statistics this week include:

Today: UK, Cyclical indicators for August. Japan, large store retail sales for August, and Foreign Ministry briefing on Japan-US structural talks. US, mid-Sept car sales.

Tomorrow: US, 2-year Treasury Note auction.

Wednesday: US, 4-year Treasury Note auction. West Germany, Bundesbank securities repurchase agreement.

Thursday: UK, new earnings survey.

Friday: Japan, unemployment, construction and housing starts for August, and leading indicators for September. US, agricultural prices for August. Spain, general elections.

BA to launch rights issue of convertible securities

By Clay Harris

BRITISH AIRWAYS will launch a rights issue of hybrid convertible securities this week to raise part of its $750m (£476m) participation in the $6.8bn consortium bid for UAL, parent company of United Airlines.

The issue, which may come as early as tomorrow, is likely to take the form of convertible preference shares, which count as equity in most calculations of balance-sheet gearing. The securities will be structured sufficiently like debt, however, so that BA will get tax relief on its interest payments.

BA is expected to seek in the region of £300m from shareholders, meaning that the basis of the rights issue should be no heavier than one-for-five.

The UK airline stressed at the weekend that the projections of several years of losses for United, which emerged from USfilings last week, might obscure the fact that most of the US carrier's cash flow would be going to pay off debt - the normal situation in a US leveraged buy-out.

BA said it was revising upwards its previous estimate that the United investment would bring a return, over five years, in excess of 20 per cent per annum.

On Friday, BA unveiled details of the securities for which it is subscribing in the bidding consortium, which embraces United's pilots, non-union staff and senior executives.

The securities give BA 15 per cent of the equity and an overall yield of 10.7 per cent, higher than its cost of borrowing if it had chosen to finance the whole investment through debt.

Oliver runs into £0.33m interim loss

Oliver Group, the footwear retailing and property concern which is diversifying into other markets, ran into a loss of £327,000 in the first half of 1989.

However, it is raising the interim dividend to 1p (0.967p).

For 1988, first half profit was £62,000 and the full year's £7m.

Turnover in the six months fell to £39m (£41.4m) mainly because of the US closures. Trading loss rose by £1m to £1.4m, but was offset partially by an £826,000 increase to £2m in property profits.

An extraordinary credit of £230,000 (debit £1m) was excess provision against US closures.

Wm Bedford midway fall

WILLIAM Bedford, USM-quoted antique dealer and restorer, has seen a further fall in halftime profits, and said the picture remained unpredictable.

In the latest period, to June 30 1989, turnover rose to £1.6m (£1.26m) but pre-tax profit dropped to £123,000 (£152,000). Earnings were shown as 1.7p (2.1p).

The recent fall in the pound should be reflected in better sales and profits for the second half, the directors claimed.

Multitone makes recovery

PROFITABLE second-half trading at Multitone Electronics, the radio paging manufacturer, reduced the first half's pre-tax losses of £286,000 to £249,000 for the 13 months to April 30 1989.

This compares with losses of £746,000 for the 12 months to March 31 1988.

Turnover was up at £22.85m (£22.17m) for the six months.

No interim dividend was paid during the year but the directors are recommending maintaining the nominal final of 0.1p per share.

Eagle Trust poised to call in company doctor

By Vanessa Houlder

EAGLE TRUST, the industrial holding company, which is the subject of a Serious Fraud Office investigation, was yesterday poised to ask Mr David James, a well-known company doctor, to be its new chairman. The invitation was set to be issued at a board meeting last night.

Mr James would succeed Mr Malcolm Stockdale, whose resignation has been demanded by Eagle Trust's creditor banks. A banking consortium, consisting of Lloyds Bank, Standard Chartered Bank and National Westminster Bank asked for Mr Stockdale's resignation last week because of "adverse publicity" and "disunity on the Eagle board". They said they would be willing to extend a £80m banking facility if a new chairman and chief executive was found by September 29.

Mr James has been involved in a number of company reconstructions, most notably Central & Sherwood, the engineering and printing company. At present, he is deputy chairman of North Sea Assets, the investment holding company.

Guidehouse rises

In the first half of 1989 Guidehouse Group, the USM-quoted financial services concern, lifted its pre-tax profit from £752,000 to £880,000, on turnover upfrom £4.61m to £6.25m.

Mr David Michaels, chairman, said the corporate finance and stockbroking benefited from reorganisation and earned higher profits.

Earnings and the interim dividend are unchanged at 2.3p and 0.4p respectively.

Lancaster living on a knife-edge

Roderick Oram on the court case against Jim Guerin, of ISC fame

AS A MAN who lives to the full the cloak-and-dagger life of the international arms trade, Mr Jim Guerin may be relishing the choice he faces this morning.

Should he keep the press, public and former fans guessing where he is, or should he turn up in his old home town of Lancaster, Pennsylvania to give evidence, as scheduled, in a suit filed against him by a former colleague?

He went to ground two weeks ago when Ferranti, the UK electronics group, said it was teetering on the brink of financial disaster because of problems it had discovered at International Signal and Control, the Lancaster company Mr Guerin founded in 1971 and merged with Ferranti in 1987.

The odds are high, townspeople feel, that lawyers for Mr Guerin, who resigned in May as deputy chairman of Ferranti, will delay the legal process to keep him out of the public eye.

Speaking through his lawyer last week, Mr Guerin strenuously denied allegations by Ferranti that ISC was plumped up with fraudulent contracts when the companies merged. He said he would co-operate with investigators from both sides of the Atlantic.

Lacking their once inspiring leader, some local ISC workers are feeling lost. "Were not sure who to trust and believe," said one. "The atmosphere here is one of concern and apprehension."

Despite the strains, work life continues apace at the company's main office complex west of town.

As clandestine as ever, the company tries to deter unwanted visitors. Until switchboard operators verify a caller has an appointment, they refuse to say where the company is located. Local gas station attendants, long privy to the "secret," direct curious out-of-towners. Additional offices and plants are scattered around the Lancaster area employing 1,400 people in total while others work elsewhere in the US.

Even though the man who gave life and character to ISC is gone, his spirit and the deep loyalty he generated appear to endure. Executives are probably co-operating with investigators but they are maintaining a solid, silent front to the world.

"When Guerin took you under his wing, you were as sure-as-hell loyal to him," says one person familiar with his style. Over the years, Mr Guerin attracted many talented executives to the company, including some from KPMG Peat Marwick, the international accounting firm which has been its external auditor since long before the merger with Ferranti.

Mr Guerin, a dry academic-looking man who seemed hooked on the intrigue of international arms dealing, plotted strategy with the same passion he played chess.

For some executives encouraged to join the company, Mr Guerin's demands proved intolerable. One was Mr William Clark, a Washington lawyer until he joined ISC as chief counsel in 1983. Within three years the work was having a "serious deleterious effect on his health, including high blood pressure," Mr Clark's doctor states in court papers filed in the case scheduled to open today, which give an insight into Mr Guerin's intimidating management style.

Mr Clark decided to leave, negotiating a settlement in March which stated only that "various differences have arisen" between him and ISC.

In lawyerly fashion Mr Clark drew up a detailed reckoning that came to $2m, including $331,902 in unpaid salary and bonus and amounts to compensate for "damages" to his personal and professional reputation and ill health.

In addition, he asked ISC to buy for $750,000 his house and its contents, specified down to a bird feeder in the tool shed and a garbage bin in the garage. As part of the deal he agreed not to talk about ISC.

Mr Guerin signed the pact but when he and ISC failed this summer to pay the balance owed, Mr Clark took the man and company to court. In a court filing, Mr Guerin argued the agreement was void because he had acceded to it only "under economic duress or business compulsion."

At the time, Mr Guerin was trying to arrange a $350m leveraged buy-out from Ferranti of some former ISC international marketing operations. Mr Guerin said if he did not accept Mr Clark's terms, the latter stated he "would make allegations against various people which, whether supportable or not, would destroy the LBO."

Later papers record Mr Clark's response to the court that he "made no such statements or demands." For reasons yet to be revealed Mr Guerin failed to buy the operations, a setback which has contributed to the rapid unravelling of his business life in recent months.

While Mr Guerin's business life grew ever more complex in recent months, ominous signs of operating difficulties within ISC began to come to light. The US Army, for example, cancelled in August a contract for $23.9m of bomb fuses, saying they failed to meet specifications.

With ISC under intense scrutiny by US and UK authorities and Ferranti trying to rebuild its damaged finances, "we just hope nothing worse will come out," said one civic leader in Lancaster. ISC is so important to the community, "we hope its future is not at stake."

"All we're trying to do is figure ont the impact of Ferranti's fate on us," said an ISC worker. "We are totally in the dark."

Leisure sells last two London casinos

LEISURE Investments, the casino and leisure group, is selling its two remaining London casinos for £25m to First Hamlin, a privately-owned operator of casinos and bingo halls in the Midlands.

The Barracuda Club and the London Park Tower casino are both positioned in the middle to top end of the London casino market, which has experienced difficult trading conditions during the last year.

The casinos were purchased by Leisure Investments last December for £24.5m.

For the six months to June 30 1989 their operating profit was £983,000.

In September Leisure Investments announced it would continue to rednce its indebtedness and focus upon lifestyle leisure activities with the objective of improving profitability.

PML downturn

PML Gronp saw first half profits decline from £353,000 to £665,000 following a failure to counteract a loss in one division and higher operating expenses. This USM-quoted manufacturer and importer of clothing lifted turnover from £9.9m to £14.44m in the six months to June 30. Earnings per share were 1p (1.3p).

GrandMet betting shop disposals

By Lisa Wood

GRAND METROPOLITAN, which last month sold the bulk of its betting shops to Brent Walker, is selling nearly all the remaining outlets to its two former competitors, Ladbroke Racing and Coral Racing.

Ladbroke Racing, Britain's biggest bookmaker, is buying the remaining British shops, some 45 London outlets in London, for £26m.

Coral Racing, which is owned by Bass, the brewing and hotel group, has acquired 369 betting shops in Belgium, trading as Tierce Franco - Belge, for an undisclosed sum. The shops form the second largest operator in Belgium.

The shops being sold to Ladbroke are outlets the Monopolies and Mergers Commission asked GrandMet to sell after it investigated the £331m acquisition last December of William Hill by GrandMet.

GrandMet already owned Mecca and the MMC was concerned about concentration of ownership of ontlets in the London area.

Ladbroke said it would now be better represented in key areas of the capital, including the West End and central London and that the price reflected the going rate for shops achieving high turnover.

The acquisition of the Belgian betting shops takes Coral Racing onto the Continent. Mr Peter Sherlock, managing director of Bass's leisure division said:" This is a particularly important acquisition as it establishes a base from which Coral can expand into Europe in the future."

GrandMet still has to dispose of its Irish bookmaking outlets.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends.

TODAY

Interims- Brent Chemicals, Capita, Cussins Property, Finlay Packaging, Jove Investment Trust, London & Edinburgh, Memec, Metalrax, Miller (Stanley), Plaxton, Rockfort, Telfos.

Finals- Cook (DC), Cornwell Parker, FII, GT Japan, High Point, Intereurope Technology Services, Lloyd Thompson, MAI, Pifton International.

FUTURE DATES

Interims-
Bermuda Intl Bond ..... Sep. 26
Blockleys ..... Sep. 26
CMB Packaging SA ..... Sep. 28
Citygrove ..... Sep. 29
Delaney ..... Sep. 27
Finlay (James) ..... Oct. 5
MIL Research ..... Oct. 3
Turriff Corporation ..... Oct. 2

Finals-
Close Brothers ..... Sep. 28
Duncan (W) & Goodricke ..... Sep. 27
European Leisure ..... Oct. 2
Melville ..... Oct. 3
Strong & Fisher ..... Oct. 5

Asda Property

Asda Property Holdings, the property investment, development and trading group, lifted pre-tax profits to £3.61m (£3.44m) in the six months to June 30. Net rental income grew by 50 per cent, and the group said commercial property now accounted for 60 per cent of net assets. On earnings per share of 3.3p (3.2p), an interim dividend of 0.6p (0.5p) was declared. Asda Property announced these results on September 5.

Breedon edges ahead

Househuilding activities held back the rate of progress at Breedon in the half year ended July 31 1989.

From group turnover unchanged at £7.9m there was a trading surplus of £1.99m (£1.85m), while the pre-tax profit rose from £1.94m to £2.11m.

Earnings worked through at 4.91p (4.84p) and the interim dividend is 1.5p (1.25p).

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

Alpha Estates (Section: Property).

Greenfriar Investment Co. Warrants (Investment Trusts).

Hanson Warrants '90-'97 (Industrials).

Hunting Conv. Pref shares (Industrials).

Lovell (G.F.) (Buildings).

Richmond Oil (Oil & Gas).

Scott & Robertson 7.5% Cum. Cnv. Red. Prf. (Industrials).

TR Australia Investment Trust Warrants (Investment Trusts).

Yorkshire Radio Network (Leisure).

Correction

Sun Alliance

The headline on an article about Sun Life's dividend policy, published on Page II of Saturday's Weekend section, incorrectly referred to Sun Alliance.

FINANCIAL TIMES STOCK INDICES

	Sep 22	Sep 21	Sep 20	Sep 19	Sep 18	Sep 15	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	85.80	85.78	85.86	85.83	85.83	85.88	89.29	83.75	127.4	49.18
Fixed Interest	96.10	96.09	96.36	96.20	96.20	96.64	99.59	95.21	105.4	50.53
Ordinary	1949.5	1962.9	1954.6	1943.3	1958.9	1949.7	2008.6	1447.8	2008.6	49.4
Gold Mines	210.7	206.9	203.5	203.6	204.1	207.1	210.7	154.7	734.7	43.5
FT-Act All Share	1202.28	1206.32	1201.74	1198.20	1203.10	1200.32	1225.80	921.22	1238.57	61.92
FT-SE 100	2370.2	2380.9	2369.8	2361.5	2373.8	2366.5	2426.0	1782.8	2443.4	986.9

INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

Creditworthiness on trial for Maxwell

THE FATE OF THE $3bn multiple tranche financing for Maxwell Communication Corp's launched into syndication last week depends on the company's ability to convince the banking community that it is a sound credit.

That persuasion will be most tested at a presentation today. In the meantime, banks have been looking hard at the terms of the deal, which Mr Robert Maxwell told shareholders was tightly priced. The lead arranger and underwriter of the deal is Swiss Bank Corporation (SBC), while other underwriting banks are Barclays, Chase, Crédit Lyonnais, Dresdner and National Westminster.

Of the facility, $1bn is a one-year term loan paying a margin of 18¾ basis points over Libor, rising to 25 basis points for the second six months. There is an undisclosed step-up in the margin if more than half the loan is outstanding at the end of this year, although the company's plans for disposals make this unlikely.

Although these terms are clearly aggressive, this is not surprising given the short maturity. It is the $1.25bn five-year term loan that is attracting most attention from banks.

However, speculation that the margin, which is tied to the company's gearing, might be as tight as 35 basis points was wide of the mark. SBC confirmed that the margin would be at the higher end of the 35-75 basis point range indicated. Other banks confirmed that the deal was being syndicated at 75 basis points over Libor.

The same is true of the three-year $750m revolving facility, which pays a commitment fee of 12½ basis points and a margin of between 30 and 67½ basis points.

Front-end fees are generous, but so too are the commitments needed to secure them. Senior lead managers receive 10 basis points for a $150m commitment, lead managers eight basis points for $100m, and managers get six basis points for $50m.

Today's presentation to the banks is expected to consist of a detailed explanation of the company's balance sheet, and much friendly persuasion. The banks have two weeks to make up their minds.

It appears they have already made up their minds about many of the water company facilities, with most reported as over-subscribed.

Elsewhere, Citicorp launched a $500m term loan for Nigeria Agip Oil to refinance a bridging facility arranged earlier this year.

The loan is guaranteed by Agip International.

The margin is set at 15 basis points over Libor for the first three years, rising to 20 and then 22½ basis points towards the seven year and nine month maturity. There is a commitment fee of ⅛ point on undrawn amounts, while up-front fees are between 5 and 10 basis points depending on commitments.

Manufacturers Hanover is the arranger of a 10-year fully underwritten term loan for Cassa di Risparmio di Roma, the Italian savings institute for which it has already launched two deals this year.

The margin is 18¾ basis points over Libor, which some bankers described as tight. However, the funding is destined for the mortgage credit section of the institute, and there is specialised demand for such exposure.

The loan, which has an average life of 5.7 years, is repaid in 20 semi-annual instalments beginning after six months. Fees are between 10 and 4 basis points.

Manufacturers Hanover also confirmed that its revolving facility for Banco di Sicilia was nearly twice subscribed and has been increased to $60m.

Andrew Freeman

EUROMARKET TURNOVER ($m)

Primary Market

	Straights	Conv	FRN	Other
US$	2,864.4	0.0	768.3	10,219.4
Prev	910.0	0.0	0.0	11,137.5
Other	1,824.2	23.7	639.1	2,895.8
Prev	713.5	0.0	0.0	4,134.0

Secondary Market

	Straights	Conv	FRN	Other
US$	14,729.6	1,044.0	5,361.3	7,763.3
Prev	16,797.3	978.1	3,982.1	6,433.3
Other	14,837.2	1,019.1	3,394.4	24,685.9
Prev	12,468.3	1,245.3	2,392.0	23,098.9

	Cedel	Euroclear	Total
US$	9,807.3	32,943.0	42,750.3
Prev	9,599.6	30,638.7	40,238.3
Other	19,959.2	29,300.2	49,259.4
Prev	18,496.3	25,555.7	44,052.0

Week to September 21, 1989 Source: AIBD

INTERNATIONAL BONDS

Investors' patience severely tested by D-Mark sectors

"Contrariwise," Tweedledee went on, "if it was so, it might be, and if it were so it would be; but as it is, it ain't. That's logic."

THERE has been a good deal of Carrollian contrariness in the D-Mark fixed income market this year. Not only have both the domestic and Euromark sectors been beset by the convoluted withholding tax saga, but the market has behaved especially unpredictably into the bargain.

For instance, the reasoning that foreign investors applied to their asset-allocation decisions in the second quarter of this year (see chart) proved about as fruitful as Tweedledee's musings.

A recent report by the Bayerische Landesbank highlights the unusual aspect of the market's current interest rate cycle. "In the past two decades," it points out, "yields moved either up or down, but they never moved sideways for very long."

This stability has upset both the bulls and the bears in the domestic market, and indirectly the Euro-sector. The truly cautious souls who placed funds in time deposits at the beginning of the year, anticipating rising long-term yields, were frustrated. Indeed, 10-year rates stayed fairly steady over a 12-month period, during which the discount rate doubled.

At the same time the decoupling of German prices from the US Treasury market, so that they failed to replicate any of the nearly 2 percentage point drop in long Treasury yields between the spring and early summer, ill-served investors with funds in long D-Mark maturities.

Ambushed by the resilience of the US economy and the unexpected surge of the dollar outside its Louvre accord bands, investors were left nursing a nervous German market, preoccupied with how far the Bundesbank would go to defend the weakened currency.

Ironically, perhaps, most of these purchasers of domestic D-Mark paper — to the tune of DM8.3bn net in the second quarter, the largest figure since the second quarter of 1987 — were former refugees from the prolonged confusion surrounding the eventually short-lived withholding tax. As the buying spree was not matched by domestic investors, the returning refugees suffered capital and certainly opportunity losses as the US and German markets diverged.

Meanwhile, it was hoped that, once the withholding tax diversions had been cleared away, the Euromark sector would return to normal, boosted by the further relaxation of certain Bundesbank rules in June. But then the currency failed to come to the rescue, a picture now aggravated by the bund market being pretty friendless too, certainly internationally.

Consequently, recent Euromark deals have tended to be tailored to the domestic market. But even here, enthusiasm is hard to engender because many retail accounts have been flirting both with the newly liberalised Swedish krona sector and with the new entrant to the Ecu, the Spanish peseta. The phenomenon has been repeated in Switzerland.

Accordingly no one is attaching much significance to last week's largely futures-led rally in the German market, sparked by the previous Friday's sharp set back to the dollar. Some Euromark paper was marked up about ¾ of a point at one stage last week, but dealers attribute this to professional short covering rather than to any resurgence of investor interest.

"People in the bund pit were trading the future like a foreign exchange instrument," remarked one London broker, referring to the appreciation of the Liffe bund future in relation to the steadier cash market. His observation was that bank treasury operations had been buying bund futures as a hedge against large dollar orders, because the Liffe contract is so much more liquid than the 10-year bonds themselves, let alone Euromark issues.

Nor is the bund market helped much by the historically narrow spreads between the US and German markets. In spite of spreads that came in suddenly this year from around 250 basis points to between 100 and 150 basis points, on the whole long-term asset-allocators are neutral with regard to the German market.

The cause of "angst," of course, lies in short-term interest rates. At the end of last week the Euromark pit on Liffe managed to convince itself that there might be a co-ordinated interest rate rise after this weekend's meeting of the Group of Seven ministers in Washington.

So, after having been stable most of the week around the 92.53 level, the future suddenly dropped on Friday afternoon to 92.40.

Longer term worries about the buoyancy of exports combined with the likely frustration of German wishes for an EMS realignment to support the D-Mark, appear to presage a series of rate rises. This leaves most economists predicting a continuing sideways drift of 10-year yields, and a steeper slope of the already inverted yield curve — a climate which is unlikely to generate much excitement in the Euromark sector.

● The Tiroler Sparkasse in Jungholz has inadvertently been testing the limits of the definition of a "Zollanschlussgebiet," or duty-free zone.

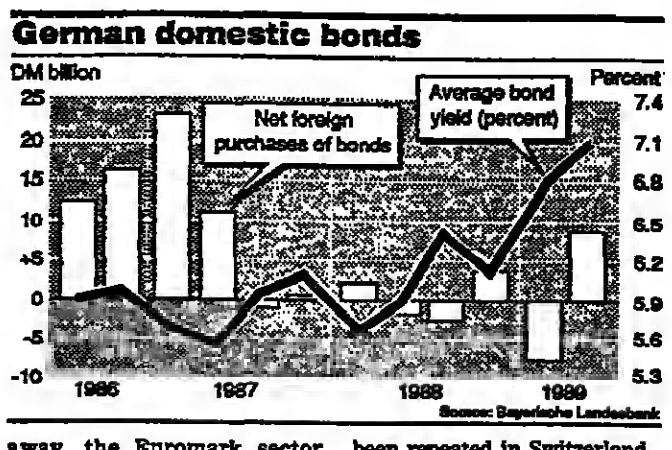
Located on the border between Austria and Bavaria, the zone enjoys special tax privileges with Germany. But the exact status of the bank as regards the Euromarkets is the subject of dispute between central bankers.

Last week this branch of the Innsbruck-based Sparkasse launched a 10-year deal to raise just DM15m for its own operation. Officials in Jungholz apparently cleared the supposed Euromark issue with the Bavarian Landescentralbank in nearby Kempten.

But the Bundesbank is now understood to be disputing the structure of the issue because of "problems with the lead manager." Euromark issues must be led by an entity domiciled in Germany.

Katharine Campbell

German domestic bonds



Source: Bayerische Landesbank

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Hokuetsu Paper Mills‡◆	150	1993	4	3⅝	100	Yamaichi Int.(Eur)	3.625
Mitsubishi Metal Corp‡◆	300	1994	5	4⅛	100	Nikko Secs.(Europe)	4.125
World Bank◆	1.5bn	1999	10	8⅜	99.55	Deutsche Bk/Salomon	8.443
Credit Local◆	250	1999	10	8⅞	101.65	Paribas Cap. Mkts	8.622
Daiwa Securities‡	800	1993	4	(4)	100	Daiwa Europe	*
Export Dev.Corp Canada◆	200	2000	10½	8¾	99¼	CSFB	8.649
MBE Finance NV◆	50	1999	10	9½	102	Mitsubishi Fin.Int	9.186
C.Cen.des Coop. Econ.◆	200	1999	10	8¾	101¼	Bankers Trust Int.	8.484
OKB(k)◆	175	1994	5	9¼	101.80	Paribas Cap. Mkts	8.790
CANADIAN DOLLARS							
Nippon Tel. & Tel.◆	200	1999	10	10¼	101.85	J.P. Morgan Secs.	9.950
Gen. Elec.Cap.(Canada)◆	200	1994	5	10⅜	101⅞	Bankers Trust Int.	9.847
C'anstalt-Bankverein(l)◆	50	1994	5	10⅜	101⅛	Creditanstalt-Bkver.	9.980
Toronto-Dominion Bank◆	125	1994	5	10¾	101½	Deutsche Bk Cap.Mkts	10.351
NEW ZEALAND DOLLARS							
Interfinance Cr.Nat.◆	60	1992	3	13	102	Hambros Bank	12.165
Telecom Corp.N.Zealand◆	75	1992	3	13⅞	101.95	Fay Richwhite	12.555
D-MARKS							
Asian Dev.Bank(b)‡◆	200	1999	10	-15bp	100.10	Deutsche Bank	-
European Patent Org.◆	150	1999	10	7⅛	101⅛	Dresdner Bank	6.930
LIRE							
Mediobanca(g)‡◆	250bn	1995	5½	8	100	Banque Indosuez	8.000
SWISS FRANCS							
Atsugi N'on Shoji(e)★★§	60	1994	-	¼	100	SBC	0.250
Mitsuba Elec. Mfg.★★§	70	1994	-	2⅝	100	Wirtschafts-und Prbk	2.625
Int.Inv.Holding(a)	50	1994	-	(6⅞)	(99½)	DG Bank (Switz)	*
Kaufhof Finance(c)‡◆	129	1996	-	5	148	UBS	0.674
Nissaki House Ind(h)★★§	35	1994	-	½	100	J.Henry Schroder Bk	0.500
Asahipen Corp.★★‡	70	1994	-	2⅛	100	Credit Suisse	2.125
Bank of Fukuoka(m)★★§	300	1994	-	(½)	100	UBS	*
S'tomo Spec.Mtls(d)★★§◆	200	1994	-	Zero	100	SBC	-
STERLING							
EIB(f)◆	175	2009	20.2	9½	94⅞	BZW Capital Markets	10.180
Northern Rock.B.Soc(l)‡◆	25	1992	2¾	⅛	(i)	Hambros Bank	-
GUILDERS							
Mitsubishi Metal Corp.◆‡	200	1993	4	2	100	Amro Bank	2.000
SWEDISH KRONOR							
Eurofima◆	300	1992	3	11	101⅞	PKbanken	10.443
Swedish Export Credit◆	300	1992	3	11⅛	101½	Svenska Int.	10.517
Cerinvest NV◆	300	1994	5	11⅛	101⅞	Den Danske Bank	10.622
YEN							
GPA Inv. BV◆	20bn	1994	5	5.6875	100	Mitsubishi Trust Int	5.688
ASLK-CGER IFICO(l)◆	5bn	1991	2	5.925	101⅛	Nippon Credit Int.	5.317
PESETAS							
World Bank	10bn	1994	5	11⅞	101⅜	Bankers Trust	11.003

★Not yet priced. ★★Private placement. ‡With equity warrants. §Convertible. ‡Floating rate note. ◆Final terms. a) Indicated minimum coupon 6⅞%. Coupon will be increased by ¼% p.a. each time if cash flow shows increase of 30% compared to 1989. b) 15bp under 6-month Libor. c) Each SFr5,000 has 14 'A' warrants(Nov.89-Sept.92) and 15 'B' warrants(Nov.89-Sept.96). Each warrant can be exercised into one share at DM430. d) Yield to put 3.816%. e) Yield to put 3.321%. f) Purchase fund. Fungible with existing bulldog issue, making total of £500m. g) Warrants can be exercised into shares at Olivetti. From 1992 warrant holders can ask issuer to redeem bonds at par to pay for Olivetti shares. Part of L750bn issue. h) Yield to put 3.60%. i) ⅛ over 3-month libor, issue price not disclosed. Fungible with existing £75m issue. l) Additional C$50m on top. k) Fungible with existing $175m issue. l) Redemption linked to Nikkei stock index. m) Indicated yield to put 3.953%. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS

US MONEY AND CREDIT

A good week for junk bond buyers

DEPENDING on which side of the street they played last week, US investors had a marked choice in credit market conditions.

Quality seekers found prices of Treasury bonds slipping further in thin trading as autumnal shadows lengthened over their side of the market. Increasing uncertainty over a host of factors, from international economic policy and the dollar to heavy up-coming supply of new bonds, darkened the mood of investors.

Yield seekers, in contrast, had a field day. News that Campeau Corp, the Canadian real estate and retailing group, was receiving help from Olympia & York, the legendary bottom fisher, blew the clouds away from the junk bond market and prices soared.

The winners were the professional junk bond investors. They stepped in to buy the bargains created the previous week when Campeau's woes routed the market. The losers were small investors who had been the main sellers, particularly from their junk bond mutual funds.

Junk bond prices had fallen an average of some five points the previous week, driving their average yield up to a lofty spread of some 600 basis points over Treasuries. Only in the wake of the Boesky affair in November 1986 had the spread been higher.

With buyers returning, it narrowed to about 575 basis points by last Friday. Investors eagerly collared any issuer with a semblance of a pedigree among the many dogs that populate the market. A particular favourite was RJR Holdings, the buy-out vehicle for RJR Nabisco. Its 20-year, 14.7 per cent payment-in-kind convertibles gained some 3½ points in price to 99. Other issuers considered to be some of the more stable buys in the volatile market were Safeway and Kroger.

Although the $200bn junk bond market can live a bit more comfortably with Campeau's bonds thanks to O&Y, all the nasty factors that periodically destabilise the market still lurk.

For example, the ability of highly leveraged companies to service their debt surfaced again last week. First Bank System, a regional banking group based in Minneapolis, said it would have to declare as non-performing some 12 per cent of its loans to such companies.

It declined to name the delinquents but it was widely believed on Wall Street that they included several companies known to be on the verge of collapse under the weight of junk bonds and bank debt incurred in leveraged buy-outs.

In the me-too world of banking, First Bank System is only one of many institutions that lent heavily for LBOs. These institutions are owed more by highly leveraged companies than they are by deeply indebted countries.

A milestone along this road was passed this week. After more than 50 years' separation of commercial and investment banking by the Glass-Steagall Act, Bankers Trust became the first commercial banking institution to exercise its newly won right to underwrite an issue of corporate bonds.

It chose not a Kodak or a General Motors for its entrée, but a Dallas dairy, Morningstar Foods, which lost $10.5m in the first half of this year. It will underwrite $150m of seven-year junk bonds, further cementing its close relationship with the company.

Bankers Trust lent a group of Texas investors $80m to help buy out the company in 1988. The money was repaid with a separate junk bond issue through First Boston. However, Bankers Trust's venture capital arm kept 4.9 per cent of Morningstar's voting stock and more than 20 per cent of its total equity.

With money flowing back into the junk bond market from the havens of quality sought the previous week, yields on Treasuries edged up. For example, the bond equivalent yield on three-month Treasuries rose by some 25 basis points to 8.01 per cent. At the long end the benchmark 30-year bond gave up 1⅛ of a point as its yield rose 12 basis points to 8.19 per cent.

However, Treasuries were hurt by more fundamental factors than just a return to the junk bond market — investors are becoming more uncertain about several issues. Their main concern was international economic policy, particularly regarding the dollar, as the Group of Seven gathered in Washington over the weekend.

The US currency slipped last week amid concern that the meeting would attempt to drive it down, or at least cap it at current levels. US authorities triggered the jitters by selling dollars heavily last week. Using unusually aggressive tactics to keep foreign exchange markets on edge, they even intervened when the dollar declined.

After its meeting, the Group of Seven pledged further but unspecified efforts to keep the lid on the dollar.

At home, market-stimulating easing of monetary conditions is likely when the Federal Reserve's Open Market Committee meets on October 3. Economic conditions do not justify it, judging by the Beige Book describing current conditions which was prepared for the meeting by the 12 Federal Reserve districts.

Released last week, the book said "modest or slow" growth overall masked considerable regional differences. Growth was accelerating in the west and south and slowing in the mid-west, while pockets of weakness were cropping up in the north-east.

Some economic measures are beginning to recover their health. Last week the market learned that personal income rose 0.4 per cent in the latest month and personal spending 0.9 per cent. August's durable goods orders, to be released tomorrow, are likely to be up about 0.5 per cent after falling 2.2 per cent in July.

Those of a nervous disposition are beginning to grow edgy again about inflation. They point out that the consumer price index was only unchanged in August because energy and food prices fell. They argue that these two volatile components are already rising once more.

This revives a fear from early in the year when producer prices were rising at an annual rate of 9 per cent. Though they have cooled since, to a current rate of 4.4 per cent, a number of influential indices are rising.

The Journal of Commerce Industrial Price Index, for example, has gained 3 per cent since mid-August.

The stage is set for a big jump in the Government's producer price index in September. But, argue some analysts such as McCarthy, Crisanti & Maffei, this will reflect a slew of special factors and not presage a flare up in inflation.

Still, with such uncertainties hanging over the markets, very few investors are likely to be aggressive buyers of bonds.

Roderick Oram

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	8.94	9.06	8.88	9.92	8.00
Three-month Treasury bills	8.01	7.76	8.09	9.03	7.15
Six-month Treasury bills	8.15	7.93	8.28	9.03	7.37
Three-month prime CDs	8.80	8.75	8.90	10.35	8.18
30-day Commercial Paper	8.85	8.80	8.85	9.95	8.05
90-day Commercial Paper	8.65	8.60	8.65	10.05	8.14

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	98¼	-¼	8.24	8.06	8.17
20-year Treasury	109¼	-1	8.31	8.17	8.26
30-year Treasury	99⅛	-1⅛	8.19	8.07	8.15

Source: Salomon Bros (estimates).

Money supply: In the week ended September 11 M1 rose $7.4bn to $782.1bn.

NRI TOKYO BOND INDEX

December 1983 = 100	21/9/89	Average yield (%)	Last week	12 wks ago	26 wks ago
	PERFORMANCE INDEX				
Overall	149.98	5.76	149.85	147.57	147.75
Government Bonds	149.15	5.19	149.05	147.42	148.03
Municipal Bonds	152.75	6.31	152.57	149.51	149.56
Govt.-guaranteed Bonds	153.60	6.36	153.43	150.63	150.63
Bank Debentures	144.82	6.18	144.68	141.59	141.59
Corporate Bonds	153.15	6.41	152.97	150.60	148.29
Yen-denom. Foreign Bonds	157.19	6.10	157.08	155.61	153.53
Government 10-year†	5.20	—	5.18	5.23	4.92

† Estimated par yield

Source: Nomura Research Institute

UK GILTS

Traders struggle to find direction

TRADING IN the gilt-edged securities market staggered to an uninspiring conclusion last week as the market struggled to find direction.

The market appears increasingly rudderless and the lack of activity appears to have dulled its senses. The hope has been expressed that tomorrow's trade figures are either far worse or better than expected, to generate some interest.

That said, the market was in forgiving vein last week and, luckily for the authorities, seemed to be operating on the basis that if something can be explained it no longer matters. The authorities' version is that if the market expects something it does not matter either.

Hence the rise in M0, to 6 per cent year-on-year growth in August, was expected. The explanation was two-fold: seasonal adjustment figures — possibly faulty — were taken into account, and people in the UK were taking holidays. Bank and building society lending at £8.4bn was "distorted" by cash takeovers.

Taking the numbers as they are, the conclusion has to be that activity in the UK is buoyant. (The September reading of M0 will show a sharp fall in the annual rate, possibly to as low as 5 per cent, but that is because last September's reading was distorted by the postal strike.)

Among the analytical fraternity there has been a subtle change in expectations about interest rates. A month ago no one would have speculated about a rise in base rates, except in the case of a steep fall in sterling. However, some now think there is a case to be made for a rise in rates on purely domestic grounds.

The buoyancy of the economy, and especially consumers' spending, was underlined in the release of second-quarter gross domestic product figures on Friday. Consumer spending was up 1¼ per cent in the second quarter (5 per cent at an annual rate) and 5¼ per cent higher than in the second quarter of 1988.

The significance for the market is not only how strong spending has been; the figures also highlight the possible unreliability of the retail sales data for assessing spending trends. In the second quarter of the year, retail sales volume was 3 per cent higher than a year ago, but consumer spending was 5¾ per cent higher.

Funding

Last week's public sector borrowing requirement figures have led many to revise downwards their forecasts for the PSBR surplus this financial year. A consensus, of sorts, is settling around the £10bn-£12bn level.

In the first five months of this financial year, Inland Revenue and customs receipts were up 8 and 8¼ per cent respectively. In the first five months of the 1988/89 year, those revenue sources were respectively 10.5 per cent and 12.5 per cent higher than a year earlier. "Other" revenue was down 18 per cent this time, compared with a rise of 17 per cent in 1988 (although this is distorted by the lack of privatisation receipts).

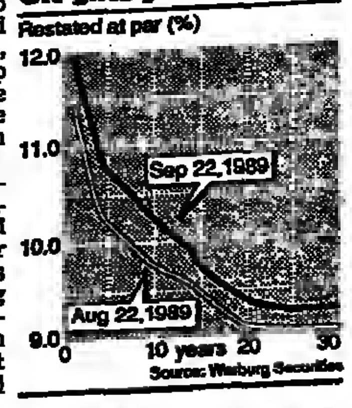
On the expenditure side, supply expenditure was up 6.5 per cent in the first five months of this financial year, compared with growth of 4.5 per cent at the same time last year.

On a £12bn PSBR forecast (which would take the buy-in requirement to £14.2bn), the funding equation looks interesting. Official purchases (£5.3bn, including this Friday's auction), redemptions to come (£6.4bn) and the contraction effects of currency market intervention (£1.7bn), would leave the Bank with little to do for the rest of the year.

This does not take account of sales of gilts to the Bank by the monetary sector and the building societies. The average of the past six quarters suggests these institutions might jettison about £500m in the rest of the year.

UK gilts yields

Restated at par (%)



Source: Warburg Securities

Volatility

The gilt-edged market has seen lacklustre periods before, but the last two weeks have been the worst this year in terms of volatility of prices. The long gilt contract has moved less than a point (94⅝ to 94) over the period.

With so much doubt over the short- to medium-term outlook for the economy, sterling and international interest rates, this is not surprising. But the lack of trading opportunities further underlines the depressing state of the gilts business and probably helps to explain Chase's pull-out last week, leaving 19 market makers.

In late 1986 Capel-Cure Myers asked its clients how many market makers would be in business three years from then. : Forty six per cent thought there would be less than 15; 43 per cent thought there would be between 16 and 20; 11 per cent thought there would be 21 to 26 left.

Simon Holberton

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on SEPTEMBER 22

Generali to buy Ambrosiano stake

By Alan Friedman in Milan

ASSICURAZIONI Generali, Italy's biggest insurance group, is expected to pay more than $200m to acquire a 13 per cent equity stake in Nuovo Banco Ambrosiano (NBA). This is a Milan-based institution that will become the country's largest private sector commercial bank later this year, following the planned incorporation of its Banca Cattolica del Veneto subsidiary.

Generali did not say how much it planned to pay for the Ambrosiano stake, which is now owned by Banca Popolare di Milano, a Milan bank that was among the original shareholders which took over the defunct Banco Ambrosiano of the late Mr Roberto Calvi in 1982.

The market value of the Ambrosiano stake is about L270bn ($192m), but reports suggest that Generali will pay more than L300bn.

In the Italian financial world the Generali move is widely seen as a prelude to an alliance which would give it effective control over Ambrosiano in partnership with Gemina, an investment company indirectly controlled by the Fiat group.

Gemina, the second biggest Ambrosiano shareholder, has itself had long-standing ambitions to acquire majority control of the bank. So far it has been blocked by the Bank of Italy, which is opposed to the idea of an industrial group or industry-linked group owning a bank.

However, Generali is already a shareholder of Gemina. Mediobanca, the powerful Milan merchant bank which is a close ally of Fiat's, is a key shareholder in both Generali and Gemina.

For several months there has been rising speculation of a planned Mediobanca-Generali-Gemina alliance in the banking world.

Such an alliance is seen as a prelude to a move by Mediobanca to help arrange a merger between Ambrosiano and Banca Commerciale Italiana (BCI), the second biggest state banking group, to give northern Italian industrial concerns indirect, but effective, control of a huge banking agglomeration.

Mr Enrico Randone, Generali's 78-year-old chairman, has scoffed at speculation of such a plan, saying there is nothing concrete.

But Mr Randone, questioned last week about whether Generali was interested in Ambrosiano, used exactly the same terms just 72 hours before he announced the deal.

Generali and BCI already have close ties, including joint control of one of Italy's biggest unit trusts.

Sun Hung Kai raises profits 10%

By Michael Marray in Hong Kong

SUN HUNG KAI Properties, the company controlled by the Kwok family, which is one of Hong Kong's largest property developers, has reported a 10 per cent increase in profits to HK$2.02bn (US$259m) for the year ended June 30.

During the 12-month period, the group sold HK$4.57bn worth of properties, 75 per cent more than the previous year. However, in his statement Mr Kwok Tak-Seng, the chairman, emphasised the continuing policy of expanding the company's investment property portfolio to build a stronger rental income base.

Sun Hung Kai's 7m square feet of completed investment properties should yield HK$900m in gross rental income during the coming year, while the company has one of the biggest land portfolios in Hong Kong, totalling 34m sq ft. In January it paid a record HK$3.35bn auction price, with Sino Land, for a waterfront site on Hong Kong island for development into an office complex.

In spite of a slide in local property prices since the events of June 4 in China, Mr Kwok remains bullish.

A final dividend of 41 cents per share has been declared, bringing the year's total to 66 cents from 52 cents last year.

COMPANY NEWS IN BRIEF

UNITED Industrial Corporation (UIC), the diversified Singapore group, has bought a 13 per cent stake in Singapore Land, one of Singapore's largest property groups, Our Financial Staff writes.

The fast-growing UIC has bought 15.8m Singapore Land shares at an average of S$14.60 (US$7.4) a share through a wholly owned subsidiary. Funds for the acquisition will come from UIC's agreement on Thursday to sell a multi-storey shopping and office complex, and an adjoining vacant site, for S$690m to the Sogo Group of Japan, an Osaka-based department store group.

The S$281m Singapore Land shares deal makes UIC the second largest shareholder in the property concern.

■ Solvay, Belgium's largest chemical business, lifted consolidated net earnings for the first six months of 1989 by 12 per cent to BFr8.33bn ($204.7m) from BFr7.44bn a year earlier, agencies reports.

Sales increased 7 per cent to BFr139.89bn from BFr130.71bn. This reflected "the very good economic climate which has stimulated the chemical sector since 1987."

The increased earnings were due both to strong performance in some of the group's five main divisions as well as a decrease in extraordinary charges. Solvay said that, based on first-half earnings, consolidated net income for the year should exceed the BFr15.11bn reported for 1988.

■ Cummins Engine's shares dropped $5⅞ to $57¼ on Friday after the engine manufacturer said it would post a substantial loss in the third quarter due to sluggish orders, Ranter reports.

Analysts added that a little profit-taking from takeover speculation had also undercut the shares. "We had been looking for break-even results for the third quarter," said Mr Michael Ward, of brokers Jesup and Lamont.

Separately, Sir Ron Brierley's Industrial Equity (Pacific) said it had raised its stake in Cummins to 13.5 per cent from 11.5 per cent.

■ Skandia, the Swedish insurance group, has reported operating profit before extraordinary items of SKr1.02bn ($155m) for the first half of 1989. The company gave no comparison with the corresponding period of 1988 due to the consolidation of Skandia International this year, Reuter reports.

However, Skandia said the consolidation of Skandia International and Vesta, the Norwegian insurance company, boosted first-half results.

Skandia contributed SKr524m to group results, while Skandia International contributed SKr481m

Wang arranges $175m credit

By Roderick Oram in New York

WANG LABORATORIES, the troubled US minicomputer maker, has arranged to borrow $175m from Manufacturers Hanover, the New York bank, to help rebuild its tattered business.

It warned, however, that it was unlikely to return to profit before the second half of fiscal 1990 and that its first-quarter revenues would be between 10 to 13 per cent lower than the year-earlier period's $723m.

Last month the Massachusetts company reported a loss of $424.3m for its 1989 fiscal year and the resignation of Mr Frederick Wang, its president.

The latest agreement with Manny Hanny provides Wang with a three-year $120m revolving line of credit secured by domestic accounts receivable and $55m in term notes secured by US real estate.

Mr Richard Miller, the new president, said: "This agreement, together with the refinancing concluded last month with our bank group, creates a financial foundation which will allow the company to complete its operational and assets restructuring."

Société Générale links with US bank

By George Graham in Paris

SOCIETE GENERALE, the French private-sector bank, has formed a joint venture with Merrill Lynch, the US investment bank, to develop securitisation operations in France.

Securitisation is a technique developed in the US which allows banks to clear loans from their balance sheets by repackaging them and selling them on in the form of securities to investors. It has been introduced to France by a law passed last year and now about to come into effect.

A number of French banks have sought to take advantage of the experience of the US investment banks in securitisation. Crédit Lyonnais, the state-owned bank, recently formed a joint venture with Bear Stearns similar to the SocGen/Merrill Lynch partnership.

French banks have loans outstanding of FFr1,830bn ($278bn) which could be transformed into mortgage-backed or asset-backed securities with an average life of 6.6 years. Assuming that around a quarter of these credits might eventually be securitised, bankers believe that the market could reach FFr450bn to FFr500bn.

But Mr Patrick Duverger, director of capital markets at SocGen, warned that interest rates on most French home loans were below the level that investors would demand on securities. Property loans make np 90 per cent of potentially securitisable loans.

SocGen and Marrill Lynch believe there is still potential for securities backed by assets, such as car loans and local authority loans.

Many French banks are eager to remove a number of loans from their halanca sheets to comply with stiffer capital adequacy ratios which will be imposed on them in line with the recommendations of the Cooke Committee of the Bank for International Settlements, the Basle-based group of central banks.

The two partners said they aimed to take at least 20 per cent of the asset-backed securities market.

Poulenc plans innovative issue to fund acquisitions

By George Graham in Paris

RHONE-POULENC, the French state-owned chemicals company, is expected soon to launch an innovative issue of participating securities, a hybrid product combining elements of bond and equity.

The issue will help finance the gronp's recent string of takeover activity: the acquisitions of RTZ Chemicals for £512m ($799m) and GAF-SSC for $480m, both announced last Wednesday, and a bidding battle for Connaught BioSciences in Canada, where Institut Mérieux, the group's subsidiary, is expected to top a $646m offer from Ciba-Geigy of Switzerland.

Mr Jean-René Fourtou, Rhône-Poulenc's chairman, has lightheartedly dismissed the problems of financing these acquisitions.

"We could buy five times this amount without having debt problems," he remarked earlier this week.

But investment bankers have been hard at work devising a new way of raising funds for the chemicals company. It has already issued 25 per cent of its equity capital in the form of non-voting certificates of investment – the maximum permitted for state-owned companies – and last year it was the first company to test the waters with $875m of "perpetual subordinated notes," a complicated issue of loan notes repackaged with the backing of US Treasury zero-coupon bonds to convert them into near equity.

Paris bankers expect the issue to be of at least FFr3bn ($455m), but there is some scepticism over investors' likely appetite.

Merrill Lynch, the US investment bank which devised the perpetual notes scheme for Rhône-Poulenc, has also worked out the new participating securities, or *titres participatifs*, which are designed to come as close as possible to equity while remaining within the framework of the 1983 law which governs these instruments.

Initially reserved for state sector and co-operative companies, *titres participatifs* may now also be issued by co-operative and mutual banks. Investors receive a fixed repayment but also a variable payment which may be indexed on a variety of elements, such as the issuer's profits or turnover.

Rhône-Poulenc's existing *titres participatifs*, for example, pay 7 per cent fixed plus a minimum of 3 per cent varying in line with its net consolidated profits. But the new issue has a more complex structure.

In the past Mr Roger Fauroux, the French Industry Minister, has argued for more straight equity injections to state-owned companies, several of which, like Rhône-Poulenc, have embarked on the acquisition trail.

The 1990 budget, presented last week, includes only FFr4.7bn for these injections, destined mainly for the two electronics groups Bull and Thomson. But Mr Fauroux has obtained a promise from the Finance Ministry that all reasonable projects will be funded, in one way or another.

Warrants on Swiss index

By Katharine Campbell in London

SWISS BANK Corporation today begins market-making in a new equity index derivative that allows investors more flexibility in taking a view on the direction of the Swiss market.

The issue consists of 400,000 "Bull-cum-Bear" warrants on the market index, which last three years and three months.

A package of 10 bull and 10 bear warrants cost SFr2,470. Both calls and puts are deep in the money, with exercise prices of SFr1,000 and SFr4,000 respectively (the level of the market multiplied by SFr1).

The simplest strategy is to take no view on the market and to hold the package to expiry, in which case investors receive SFr3,000 for each 10-lot bundle, which SBC calculates as a yield of 6¼ per cent.

Alternatively, investors can sell all or some of the calls or puts, tailoring their risk exposure either to a straight bull or bear position or to a combination of the two. This effectively creates a convertible bond on the Swiss market, SBC says.

Spanish insurer considers rights

CORPORACION Mapfre, the Madrid and Barcelona arm of Mapfre, Spain's largest independent insurance company, plans its biggest rights issue this autumn, Diana Smith writes from Madrid.

The exact figure has not yet been agreed with the Spanish authorities hut the company indicates that Pta13bn ($106.6m) may be raised in a one-for-three issue.

Proceeds of the capital increase will be used to build up equity funds for Corporacion Mapfre subsidiaries.

Tokai Bank seeks London SE listing

TOKAI BANK, Japan'e sixth largest, is to seek a listing on the London Stock Exchange next month, writes David Lascelles, Banking Editor.

Mr Kazuaki Ohmori, managing director of the European region, said his bank wanted to increase awareness of its name in the market, while widening its shareholder base.

Tokai is based in Nagoya. Among its clients is the Toyota motor company, which has a stake of about 5 per cent.

The bank is in the process of expanding its European operations.

Mr Ohmori said this might be effected by acquisition; it has been interested in hidding for Guinness Mahon, the London merchant bank which was recently bought by Bank of Yokohama.

The listing application, the eighth by a top Japanese bank in the last 18 months, is being arranged by Morgan Grenfell and sponsored by Cazenove.

LEGAL COLUMN

US firms pioneer the route to global practices

By Robert Rice, Legal Correspondent

THE EXPANSION of US law firms into Europe shows no signs of slowing down. If English law firms still have some doubts about the precise nature of the opportunities presented by the political and economic integration of Europe, the Americans, it seems, never had any.

Many of the larger US law firms began the internationalisation of their practices many years ago, following their clients overseas in an attempt to try to meet their needs worldwide.

Now it seems they are interested in developing new markets for their services where the legal and technical barriers to international practice permit.

Most of the top US law firms have chosen to establish a presence in London, Paris or Brussels, some in all three: London and Paris because of their importance as financial centres after 1992; Brussels because it is the centre of the European legislature. In this way they are mirroring the split that many of them have between Washington and New York.

Last week the Cleveland law firm of Jones, Day Reavis & Pogue became the latest US giant to announce that it is to open an office in Brussels (on October 1). It already has offices in London and Paris.

Jones, Day, ranked second after Skadden Arps in the American Lawyer's list of the top 100 law firms judged by gross revenues, is arguably the second largest law firm in the world after Baker & McKenzie, with more than 300 partners and more than 1,000 lawyers. It had gross revenues of $264m (£168m) in the financial year to the end of December 1988.

Its purpose in opening in Brussels is, according to Mr Richard Pogue, the firm's managing partner, simply to "expand its EC law capabilities, with particular emphasis on competition law matters." The addition of Brussels to the firm's existing European offices will provide a solid base for developing a truly pan-European practice.

Mr Pogue said: "The core of Jones, Day's philosophy is to provide consistency of service and quality of practice through e distinctive one-firm concept. We are making that same commitment to integrity of practice in Europe." In other words, he is underlining Jones Day's intention to be one of the first truly global law firms.

The opportunities presented by the single market are there too for English lawyers but they should be under no illusions about the intense competition they will face in the provision of legal services both at home and abroad over the next decade.

The internationalisation of their practices and how that can best be achieved is something therefore that they need urgently to address if they have not done so already.

The Spicers Consulting Group, the consultant arm of Spicer and Oppenheim International, turns its attention to the subject of internationalisation in the fourth in its series of papers on strategic issues for law firms.

Spicers notes that traditionally lawyers and accountants have tended to expand overseas by following their clients abroad, whereas, for example, chartered surveyors and management consultants have usually established international operations because their services have seemed applicable in overseas markets.

Lawyers and accountants have also faced considerable legal and institutional barriers to the international expansion of their businesses in the form of local bar rules and so on. According to Spicers, however, there are now two primary driving forces behind the growing trend towards internationalisation in the legal profession.

The first is the general globalisation of the client base. As clients in one country expand their activities abroad, lagal firms see an opportunity to meet their needs. However, Spicers says, there is a measure of defence in that. If Firm A has a London-based client who expands into New York there is a risk that if the client uses a firm in New York – Firm B, which has connections in London – then Firm B may wrest the London work away from Firm A and provide an international service. Tha consequence of that is that as some legal firms develop international relationships, pressure is put on others who service multinational clients to do the same.

The second driving force stems from the single European market. Businesses trading in Europe have to be aware of three legal environments: that of their home country; that of any other EC member state in which they operate; and that of EC law. A company cannot avoid the consequences of European integration. Even if it chooses to trade solely within its national boundaries, it will be subject to EC law.

Legal firms will thus require expertise in the laws of their own country, access to lawyers with expertise in other European countries aod either expertise or access to expertise in EC law.

The question is how best to go about securing this expertise or access to it.

According to Spicers, there are distinct stages to the development of international associations for most firms. Different firms will be suited to different stages according to their needs and those of their clients but associations between legal practices will generally evolve over time, moving from low to high integration.

Starting from a position of autoaomy, professiooal firms are usually unwilling to sacrifice too mnch indepeodence early in an association. If however an ioformal arrangemeot is successful there will usually be a push by some members to increase integration in order to serve the clients' needs better.

There are points, as integration increases, at which a break with the past must be made and new arrangemeots established.

The first stage is generally a club – a loose association of autonomous members with no structure or resources which members use primarily to exchange information. The club has no market visibility.

The second stage is a oetwork which is also an informal association of autonomous law firms but with some co-ordination of activities. Members usually pay overheads on a pro-rata basis, informal quality assurance practices exist and the network is usually seen in the market as an association of firms.

The third stage is a federation – a formally organised association with a constitution and membership obligations. The international organisation has its own resources, a strategic direction, quality assurance procedures, a committee structure aod so on. Members forgo a degree of autonomy, but the profits of member firms are not subject to international pooling.

The final stage is the global firm, of which there will probably be about 10 by the turn of the century, in which local autonomy is abolished and firms operate as profit centres within one organisation. Profit pooling occurs worldwide and partners receive a distributioo based on global performance. The firm has a worldwide strategy and policies which vary only to suit local cooditions. Resources are viewed globally and a common approach to client service and management is built up.

Clearly there can be variations on these themes but, as Spicers points out, the essential features are that integration increases at each stage, representing a reduction in local autonomy, and each stage is a fundameotal shift from the previous one.

Imbalances in flows of referred work are bound to occur. It is therefore vital for firms to assess the potential for referral work both for the present and the future on a country by country basis before moving into stages two and three.

LEGAL APPOINTMENTS

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 26p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Providence Capital Fd Mgrs Ltd (1000)H
50 Uxbridge Road, London W12 8PG 01-749 9111

Worldwide Inc	5	109.80	109.80xd	117.30	0.29	41151
Worldwide Acc	5	114.50	114.50xd	122.20	0.29	41152
UK Equity Inc	5	80.11	81.11	86.96	2.85	41153
UK Equity Acc	5	89.45	89.45	90.90	2.85	41154
European Inc	5	128.40	128.40	137.40	0.54	41155
European Acc	5	132.90	132.90	142.40	0.54	41156
Nth American Inc	5	67.64	67.74xd	72.05	1.37	41157
Nth American Acc	5	70.51	70.51xd	75.00	1.37	41158
Japan Inc	5	124.20	124.20	133.00	0.00	41159
Japan Acc	6	124.50	124.50	133.40	0.00	41160
UK High Inc Eq Inc	5	75.64	75.64	81.51	5.54	41161
UK High Inc Eq Acc	5	85.95	85.95	92.62	5.50	41162
Hong Kong Inc	5	45.49	45.49xd	48.53	2.71	41163
Hong Kong Acc	5	47.53	47.53xd	50.70	2.75	41164
Swiss Equities Inc	5	40.09	40.09	43.04	1.08	41165
Swiss Equities Acc	5	40.44	40.44	43.41	1.08	41166
W'wide Bond Inc	5	52.02	52.02xd	54.87	5.90	41167
W'wide Bond Acc	5	54.68	54.68xd	57.55	5.90	41168
Emerging Asia Inc	6	96.10	96.10	103.00	0.00	46665
Emerging Asia Acc	5	96.10	96.10	103.00	0.00	46664
UK Money Mkt Inc	0	50.33	50.33	50.33	12.92	–
UK Money Mkt Acc	0	50.35	50.35	50.35	12.92	–

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA 01-588 3963

PM Equity Gth	5	126.3	127.2	135.3	2.55	41169
PM Income & Gth	6	104.8	105.6xd	112.3	3.89	41170
PM Nth Amer Gth	5	61.51	61.51	65.43	1.15	41171
PM European Gth	5	61.93	62.11	66.07	0.67	41172
PM Japan Gth	5	79.41	79.52	84.59	0.29	41173
PM Overseas Gth	5	56.73	56.73	60.35	0.43	41174

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ▼ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♦ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

هكذا من الأصل

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Windsor Trust Mngrs Ltd (1200)F

Albany Life Assurance Co Ltd—Contd.

City of Edinburgh Life Assurance

Devonshire Life

Assicurazioni GENERALI SpA

Irish Life Assurance Co Plc—Contd.

MGM Assurance(z)

NEL Britannia Assce Co Ltd—Contd.

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Premium Life Assurance Co Ltd

37-39, Perrymount Road, Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	City-line
American	129 0	136 0	–	43285
Building Soc. Fd	174.0	184 0	–	43286
Balanced	294 0	318.0	–	43287
European	195 0	204 0	–	43289
GT Managed	192 0	203.0	–	43290
Gartmore Mngd	128 0	135.0	–	43291
German	138 0	146 0	–	43292
Gilt	183 0	193 0	–	43293
Global	50 0	55 0	–	–
High Inc	121 0	128.0	–	43294
International Equity	206 0	217 0	–	43295
Japan	266.0	280 0	–	43296
Managed	64.0	68 0	–	43297
Property	292 0	308 0	–	43298
F. W. Imperial Gold	156 0	164 0	–	43299
UK Equity	367.0	387.0	–	43300
Pension Funds				
American	152.0	160 0	–	43301
Building Soc Fd	177 0	187.0	–	43302
Balanced	227 0	239 0	–	43303
European	197 0	204 0	–	43305
German	122.0	129.0	–	43308
Gilt	159 0	168.0	–	43309
International Equity	148.0	156.0	–	43310
Japan	145 0	153 0	–	43311
Managed	68.0	72.0	–	43312
Property	224.0	236.0	–	43313
UK Equity	338 0	356 0	–	43314

Professional Life Assurance Co Ltd

Frobisher Hse, Nelson Gate, Southampton 0703 232323

	Bid Price	Offer Price	Yield Gross	City-line
Pensions Managed Fund	97.81	103.42	–	42263
Pensions Cash Fund	80.02	84.23	–	42264

Prolific Life & Pensions Ltd

Stramongate, Kendall, Cumbria LA9 4BE 0539 733733

Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Gwth Mngd	628.5	662.3	–	43315
Adventurous Mngd	137 0	144 4	–	46402
Secure Mngd	113.2	119.3	–	46403
Cash Fd	238 3	251.21	–	43316
Property Fund	294 8	313 7	–	43317
Equity Fund	714.7	753 2	–	43318
Fxd Int. Fund	303 1	319 4	–	43314
International	327 1	348 0	–	43320

Prudential Holborn Pensions Ltd

30 Old Burlington St, London W1X 1LB 01-439 3134

	Bid Price	Offer Price	Yield Gross	City-line
Managed	597 8	629.3	–	43524
Equity	869 8	914 8	–	43525
Global Equity	259.3	273.0	–	43526
Fixed Interest	413.5	435.3	–	43527
Property	409 1	430 7	–	43528
Cash	161.5	170.1	–	43529
Index Linked Gilt	203.7	214.5	–	43530
Guaranteed	12.93		–	43531
International Money	206 5	217 4	–	43532
North American	82.3	86.7	–	43533
Japanese	150.5	158.5	–	43534
European	106.5	112.2	–	43535
Special Situations	123.5	130 0	–	43536
Communications	112.3	118.3	–	43537
Smaller Companies	115.9	122.1	–	43538
International Small Cos.	146.8	153 7	–	46699

Prudential Pensions Limited

Holborn Bars, London EC1N 2NH 01-548 3281

	Bid Price	Offer Price	Yield Gross	City-line
Discretionary Sept 20	£167.40	172.80	–	43539
Equity Sept 20	£184 27	191.08	–	43540
International Sept 20	£28 58	29 22	–	43541
Intl Bond Sept 20	£12 69	12.84	–	43542
Fixed Int Sept 20	£73.99	74.80	–	43543
Index Linked Sept 20	£63.00	64.19	–	43544
Property Sept 20	£115.81	122.61	–	43545
Cash Sept 20	£21.6297	21.6297	–	43546
Pru-Linked Retirement Plan				
Managed Sept 19	408 9	426 0	–	43547
Cash Sept 19	203 0	211.5	–	43548
Prudential Pensions Investment Account				
Pens Mngd Sept 21	164.9	177 2	–	43549
Pens UK Eq Sept 21	318.8	343.7	–	43550
Pens Intl Sept 21	195 2	209 9	–	43551
Pens Fixed Sept 21	168 9	178 4	–	43552
Pens Index Lk Sept 21	161.3	170.3	–	43553
Pens Cash Sept 21	132.5	139.6	–	43554

Regency Life Assurance Co Ltd

Regency Hse, Lanark Sq, London E14 9XS 01-538 8800

	Bid Price	Offer Price	Yield Gross	City-line
Aggressive Ptflio Fd	224 3	231 0	–	43555
Balanced Ptflio Fd	326 1	343.2	–	43556
Cautious Ptflio Fd.	124.3	130 8	–	43557
Elite Fund	117.2	123.3	–	43558
European Fund	95.1	100 0	–	43559
Far East Fund	108 8	114.5	–	43560
Fixed Interest Fund	243.3	256 0	–	43561

Scottish Amicable—Contd.

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Skandia Life Assurance Co Ltd—Contd.

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Target Life Assurance Co Ltd—Contd.

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Wesleyan & General Assurance Soc

Windsor Life Assce Co Ltd

Zurich Life Assurance Co Ltd

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Reliance Mutual

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
2,000	Exch 11pc 1989	99¾xd	–	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986–89	99⅝xd	–	8.9	15 Apr 15 Oct	1329
174	Exch 10¼pcCv '89	99¾	15.32	10.4	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	99⅞	12.72	8.6	15 Jul 15 Jan	1300
500	Treas 2pc IL '90(84.6)	132½	9.56	19.6	25 Jul 25 Jan	1511
1,400	Exch 11pc 1990‡‡	99¼	12.76	12.7	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	99¾	13.21	16.8	22 Sep 22 Mar	1262
550	Treas. 3pc 1990	95⅜	10.01	3.4	8 Nov 8 May	1325
600	Treas 8¼pc 1987–90‡‡	97⅞	12.40	9.5	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	96⅞	12.22	9.6	16 Jul 16 Jan	4680
1,887	Treas. 10pcCv 1990	97⅞xd	12.54	18.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	92¼	9.22	17.4	22 Oct 22 Apr	1270
2,200	Treas 11¾pc 1991	99⅜	12.34	27.6	10 Jul 10 Jan	1292
400	Funding 5¾pc '87–91‡‡	93¼xd	10.72	1.9	5 Oct 5 Apr	1275
400	Treas. 3pc 1991	90⅛	9.64	6.4	15 Nov 15 May	1326
646	Treas 10pc Cv '91 ‡‡	96⅞	11.76	27.6	12 Jan 12 Jul	1286
1,560	Exch. 11pc 1991	98¼xd	11.79	18.9	25 Apr 25 Oct	1258
1,350	Treas. 8pc 1991	92¾	11.73	4.5	10 Jun 10 Dec	1335
900	Treas 12¾pc 1992‡‡	102⅜	11.28	15.6	22 Jul 22 Jan	1297
1,600	Treas. 10pc 1992	97⅜	11.37	17.7	21 Aug 21 Feb	1283
1,400	Treas. 8pc 1992 ‡‡	92⅛xd	11.38	6.9	13 Oct 13 Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	98¼	11.27	31.3	7 Nov 7 May	1289
500	Treas. 3pc 1992	84⅜	9.50	5.5	11 Dec 11 Jun	1328
1,350	Exch. 12¼pc '92	102⅜	11.22	19.7	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	105⅜	11.13	31.8	22 Mar 22 Sep	1266
950	Treas 8¾pc 1993	92¼	10.97	12.7	18 Aug 18 Feb	–
1,850	Treas 10pc 1993‡‡	97½xd	10.87	8.9	15 Oct 15 Apr	1279
1,100	Treas 12½pc 1993‡‡	104⅞	10.89	27.6	14 Jan 14 Jul	1296
600	Funding 6pc 1993‡‡	86⅛	10.08	9.8	15 Mar 15 Sep	1276
1,250	Treas 13¾pc 1993‡‡	109⅞	10.82	17.4	23 May 23 Nov	1304
1,050	Treas. 8¼pc 1994	91⅜	10.85	27.6	3 Aug 3 Feb	–
600	Treas 14½pc 1994‡‡	113⅞	10.84	26.7	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	109[illegible]	10.82	20.9	27 Oct 27 Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	97[illegible]	10.65	3.5	9 Dec 9 Jun	1284
1,550	Exch. 12½pc 1994	106[illegible]	10.81	17.7	22 Feb 22 Aug	1263
	Five to Fifteen Years					
1,600	Treas 9pc 1994‡‡	93¾	10.59	10.4	17 May 17 Nov	1345
2,350	Treas 12pc 1995	104⅞	10.79	19.6	25 Jul 25 Jan	1294
229	Exch 3pc Gas 90–95	75½	8.59	28.3	1 Nov 1 May	1271
2,100	Exch. 10¼pc 1995	90⅝	10.67	14.6	21 Jan 21 Jul	1254
1,000	Treas 12¾pc 1995‡‡	109⅞	10.60	10 d	15 May 15 Nov	1296
900	Treas. 14pc '96	114⅝	10.74	15.6	22 Jul 22 Jan	1305
750	Treas.9pc 1992–96‡‡	93⅝	10.36	9.8	15 Sep 15 Mar	1344
1,350	Treas 15¼pc 1996‡‡	121¾	10.63	28.3	3 Nov 3 May	1309
800	Exch 13¼pc 1996‡‡	112⅛	10.50	10.4	15 Nov 15 May	1268
1,109	Conversion 10pc 1996	97⅛	10.51	10.4	15 May 15 Nov	1240
1,500	Treas 13¼pc 1997‡‡	113¾	10.56	15.6	22 Jul 22 Jan	1302
3,100	Exch 10½pc 1997	99⅜	10.42	17.7	21 Aug 21 Feb	1253
3,750	Treas 8¾pc 1997‡‡	91⅜	10.36	24.8	1 Mar 1 Sep	1341
1,000	Exch 15pc 1997	123xd	10.67	20.9	27 Apr 27 Oct	1269
2,850	Exch. 9¾pc 1998	96⅝	10.33	12.6	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995–98‡‡	81⅝	9.99	28.3	1 Nov 1 May	1131
1,100	Treas. 15½pc '98‡‡	128⅜	10.51	24.8	30 Mar 30 Sep	1303
2,500	Exch. 12pc 1998	108⅞	10.47	13.4	20 May 20 Nov	1259
1,250	Treas 9½pc 1999‡‡	96⅛	10.39	8.6	15 Jan 15 Jun	1347
2,900	Exch. 12¼pc 1999	110⅛	10.43	21.8	26 Sep 26 Mar	1264
1,252	Treas. 10½pc 1999	100⅝	10.35	12.4	19 Nov 19 May	1288
1,540	Conversion 10¼pc 1999	99¼	10.39	17.4	22 May 22 Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	90¼	10.34	21.6	28 Jan 28 Jul	1338
1,554	Conversion 9pc 2000‡‡	93¼	10.05	28.7	3 Sep 3 Mar	1244
1,817	Treas. 13pc 2000	116⅛	10.41	27.6	14 Jan 14 Jul	1299
1,050	Treas 10pc 2001	99⅛	10.14	20.7	26 Aug 26 Feb	1290
1,250	Treas. 14pc '98–01	110⅝	13.62	17.4	22 Nov 22 May	1306
802	Conversion 9¾pc 2001	97⅝	10.10	4.7	10 Feb 10 Aug	1248
1,600	Exch. 12pc '99–02	100⅜	10.42	15.6	22 Jul 22 Jan	1261
716	Conversion 10pc 2002	99¼xd	10.03	4.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	98⅜	10.05	21.7	27 Feb 27 Aug	1349
2,300	Exch. 9pc 2002	93⅜	9.92	12.4	19 Mar 19 Nov	1272
1,800	Treas. 13¾pc 2000–03	121	10.35	19.6	25 Jan 25 Jul	1302
1,000	Treas 10pc 2003	100⅜	9.87	2.8	8 Mar 8 Sep	1281
1,900	Treas. 11½pc 2001–04	100⅜	10.29	14.8	19 Sep 19 Mar	1295
900	Treas. 10pc 2004	101⅜	9.82	11.4	18 Nov 18 May	1282
443	Funding 3½pc '99–04	57⅞	8.68	29.6	14 Jan 14 Jul	1274

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Over Fifteen Years					
1,362	Conversion 9½pc 2004	98¼xd	0.75	18.9	25 Apr 25 Oct	1246
1,681	Conversion 9½pc 2005	90⅞xd	9.72	11.9	18 Oct 18 Apr	1247
1,050	Exch. 10½pc 2005	106⅝	9.71	14.8	20 Mar 20 Sep	1251
2,200	Treas 12½pc 2003–05	119⅜	9.92	14.4	21 May 21 Nov	1295
1,200	Treas. 8pc 2002–06‡‡	86⅜xd	9.65	1.9	5 Apr 5 Oct	1334
702	Conversion 9¾pc 2006	100⅜	9.65	10.4	15 May 15 Nov	1249
3,150	Treas. 11¾pc 2003–07	113⅞	9.92	15.6	22 Jul 22 Jan	1293
1,446	Treas 8½pc 2007 ‡‡	91⅞	9.51	9.6	16 Jan 16 Jul	1339
1,250	Treas. 13½pc '04–08	127⅞xd	9.84	21.8	26 Sep 26 Mar	1301
1,800	Treas 9pc 2008 ‡‡	96⅛xd	9.05	6.9	13 Apr 13 Oct	1343
1,000	Treas 8pc 2009	87⅝xd	9.01	21.8	25 Mar 25 Sep	1336
369	Conv 9pc Ln 2011 ‡‡	96⅞	9.34	29.6	12 Jan 12 Jul	1245
1,000	Treas. 5½pc 2008–12‡‡	65⅜	9.18	4.8	10 Mar 10 Sep	1330
700	Treas. 7¾pc 2012–15‡‡	84⅝	9.30	19.6	26 Jul 26 Jan	1332
1,000	Exch. 12pc '13–'17	125½	9.35	8.5	12 Jun 12 Dec	1260
	Undated					
359	Consols 4pc	42⅜	–	26.6	1 Feb 1 Aug	1239
1,909	War Loan 3½pc‡‡	37⅛	–	25.4	1 Jun 1 Dec	1352
140	Conv. 3½pc '61 Aft	64⅞xd	–	25.8	1 Apr 1 Oct	1243
56	Treas. 3pc '66 Aft	34xd	–	1.9	5 Apr 5 Oct	1324
276	Consols 2½pc	26⅜xd	–	1.9	5 Ja Ap Jul O	1238
475	Treas. 2½pc	26⅛xd	–	25.8	1 Apr 1 Oct	1315
	Index-Linked		(b)	(a)		
650	Tr. 2pc '92‡‡(97.8)	111⅛xd	3.28	17.8	23 Mar 23 Sep	1312
400	Do. 2 '94 (102.9)	104⅛	3.17	10.4	16 May 16 May	–
1,000	Do. 2pc '96(67.9)	153¼	3.22	10.8	16 Mar 16 Sep	1313
900	Do. 2½pc '01(78.3)	128⅞xd	3.57	18.8	24 Mar 24 Sep	1316
800	Do. 2½pc '03(76.8)	125⅛	3.62	13.4	20 Nov 20 May	1317
1,200	Do. 2pc '06(69.5)	129⅛	3.62	12.6	19 Jan 19 Jul	1314
950	Do. 2½pc '09(78.8)	120⅜	3.62	13 d	20 Nov 20 Mar	1318
1,350	Do. 2½pc '11(74.6)	125⅛	3.60	17.7	23 Feb 23 Aug	1319
1,100	Do. 2½pc '13(89.2)	104½	3.58	10.7	16 Feb 16 Aug	1320
1,700	Do. 2½pc '16(81.6)	113⅜	3.54	19.6	26 Jan 26 Jul	1321
1,400	Do. 2½pc '20(83.0)	110⅞xd	3.48	11.9	16 Oct 16 Apr	1322
900	Do. 2½pc '24‡‡(97.7)	93⅝	3.44	12.6	17 Jan 17 Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for January 1989:111.0 and for August 1989:115.8

INT. BANK AND O'SEAS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼ Ln 2010	103⅛	10.73	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	99⅞	10.33	28.3	3 Mar 3 Sep	–
100	Australia 13½pc 2010	123⅞xd	10.68	23.12	28 Jan 28 Jul	–
100	Do. 11⅛pcLn2015	106⅛	10.65	22.3	26 Apr 26 Oct	–
75	Euro Inv Bk 11pc Ln 2002	103¼	10.53	25.2	23 Mar 23 Sep	–
100	Do. 10⅜pc2004	99⅛	10.49	24.10	Apr Nov	–
75	Int-Am Dev Bk 12½pc 2003	112⅝	10.66	7.12	8 Jan 8 Jul	–
175	Do. 9¾pcLn 2015	96⅛	10.41	13.10	15 May 15 Nov	–
75	Mlysia 10⅞pcLn 2009	95xd	11.39	23.12	31 Jan 31 Jul	–
50	Utd Mexican States 16½pc 2008	115	14.28	24.1	1 Mar 1 Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	100½	11.20	20.4	20 May 20 Nov	1838
45	Do. 11½pc 2012	104⅛	11.00	14.4	15 May 15 Nov	1837
40	GLC 6¾pc 1990–92	88½xd	12.20	17.7	15 Feb 15 Aug	2647
40	Leeds 13½pc 2006	119½xd	10.94	11.9	1 Apr 1 Oct	3146
5	Liverpool 3½pc Irred	32xd	–	1.9	1 Ja Apr Jn Oc	3169
25	LCC 6¾pc '88–90	94½	11.90	14.7	10 Jan 10 Jul	3198
26	Do. 3pc '20 Aft	23xd	–	1.8	1 Mar Jn S D	3197
7	Manchester 11½pc 2007	103½	11.05	31.3	25 Apr 25 Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988–92	88½	11.90	1.12	1 Jan 1 Jul	–
–	S Rhod 2½pc Non-Assd.	206	–	–	1 Apr 1 Oct	–
4	Do. 4½pc 87–92 Assd	84½	9.33	14.7	7 Feb 7 Aug	–

LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Building Societies					
20	Nat'wide Anglia 12⅛pc 2.10.89	99⅞	14[illegible]	4.9	26 Mar 2 Oct	–
20	Do. 11⅞pc 6.11.89	99⅞	13[illegible]	31.3	30 Apr 6 Nov	–
20	Do. 12⅜pc 4.12.89	99½	[illegible]	28.4	28 May 4 Dec	–
20	Do. 12⅞pc 2.1.90	99⅞	13[illegible]	30.5	2 Jan 28 Jun	–
20	Do. 12⅞pc 29.1.90	99⅝	13[illegible]	23.6	29 Jan 23 Jly	–
–	Do. 12⅞pc 26.2.90	99⅝	13[illegible]	21.7	26 Feb 20 Aug	–
–	Do. 12⅞pc 19.3.90	99⅞	13[illegible]	–	19 Mr 13 Sep	–
20	Do. 13⅜pc 23.4.90	99⅞xd	14[illegible]	18.9	23 Apr 17 Oct	–
20	Do. 13pc 14.5.90	99⅜	13[illegible]		14 May 8 Nov	–
–	Do. 13⅞pc 4/6/90	99⅞	13[illegible]	–	4 Jun 30 Nov	–
–	Do. 14⅜pc 2.7.90	100¼	13[illegible]	–	2 Jly 26 Dec	–
–	Do. 13⅝pc 23.7.90	99⅞	13[illegible]			–
60	Do. 3⅞pcIL Ln 2021	104½	4.[illegible]	22.6	30 Jan 31 Jul	3446
	Public Board and Ind.					
25	Met. Wtr. 3pc 'B'	46xd	10.62	1.8	1 Mar 1 Sep	3361

FOREIGN BONDS & RAILS

Amount £m	Stock	Price £	Div % Gross	Yld	Last xd	Interest Paid	City-line
7	Greek 7pc Ass.	40	3.50	f8.75	1.11	1 May 1 Nov	2763
4	Do. 6pc 28 Stb. Ass.	40xd	3	f7.50	1.2	1 Feb 1 Aug	2762
–	Do 4pc Mixed Ass.	40xd	2	f5.00	3.4	1 Apr 1 Oct	2761
1	Hung. '24 Ass.	80	2.75	f3.57	3.5	1 May	2935
40	Hydro Quebec 15pc 2011	132⅞	15.00	11.05	27.10	31 May 30 Nov	–
30	Iceland 14½pc Ln 2016	122⅞xd	14.50	11.60	29.12	31 Jan 31 Jul	–
30	Ireland 9¾pc '91–96	92¼xd	9.75	11.40	21.8	1 Mar 1 Sep	3002

AMERICANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
8,917.2	Abbott Laboratories‡	39⅞xd	$1.40	2.3	11.7	Fb My Ag Nv	1503
267.6	♦Allegheny & W 1c	515p	30c	3.7	–	–	–
1,063.4	Amax $1	16⅞xd	80c	3.0	7.8	Mr Jn Se De	1581
404.7	Ambase Corp $1	9⅞xd	20c	1.3	24.2	Ja Mar Jn Dc	2915
1,013.2	Amdahl 5c	965pxd	b10c	0.7	31.1	Nv Mr Jn Ag	–
3,092.8	Amer. Cyanamid $5	33⅝	$1.35	2.5	27.2	Mr Je Se Dc	–
11,566.8	Amer. Express 60c	23⅛xd	84c	2.3	3.7	Fb My Ag Nv	1594
1,168.5	Amer Medical Int. $1	14⅞	♦72c	3.2	9.1	Fb My Ag Nv	–
20,162.6	American T. & T. $1	27	$1.20	2.8	27.5	Fb My Ag Nv	1597
17,873.5	Ameritech $1	40	h$2.92	4.6	28.3	Fb My Ag Nv	–
–	♦Asiamerica Equity‡	570p	–	–	–	–	–
3,837.3	BankAmerica $1⅞	21⅞xd	60c	1.8	17.5	Fe My Au No	1744
2,560.2	Bankers N.Y. $7	32⅞xd	$2.08	4.1	31.3	Ap Jly Oc Jan	1745
12,232.2	Bell Atlantic $1	61⅛	$4.08	4.2	27.6	Fe My Au No	–
16,240.8	BellSouth Corp	33⅛	$2.52	4.7	6.7	Fe My Au No	–
1,022.3	♦Bethlehem Steel $8	13⅛xd	$1.00	4.6	6.2	Mar Jun S D	1821
–	♦Bio-Rad Labs. A	11	–	–	–	–	–
674.7	Bowater Inc.	18⅜	$1.12	3.9	6.6	Oc Ja Ap Jy	1884
930.8	Brunswick 75c	18⅞xd	44c	2.7	20.7	F My Au N	1929
3,302.3	CPC Intnl 25c	40⅞	$1.80	2.8	25.9	Jan Ap Jly D	2263
152.9	California Engy	840p	–	–	–	–	–
3,916.3	Campbell Soup 15c	38⅛xd	92c	1.9	3.7	Oc Ja Ap Jy	–
2,066.2	Chase Manhattan $12½	25⅞xd	$2.36	5.9	27.7	Fb My Ag Nv	2109
2,803.0	Chem. Banking Corpn	25⅛	$2.72	6.8	12.6	Ap Jy Oc Ja	–
3,617.9	Chrysler $6¼	16⅜xd	$1.20	4.6	14.6	Mar Jun S O	2135
6,379.8	Citicorp $1	20⅞xd	$1.62	5.1	25.4	My Au N F	2141
2.92	CityFed Fin. Corp	142p	4c	1.8	29.10	Fb My Ag Nv	–
2,535.6	Colgate-Palmolive $1	36⅞xd	s$1.48	2.5	20.7	F My Au N	2184
1,629.5	Cont'l Bank Corp $4	16⅛	80c	3.1	31.5	Dc Mr Jn Sp	–
–	♦Corporate Data Sciences	404p	–	–	–	–	–
173.1	Cullinet Sftwr 1c	536p	–	–	–	–	–
1,097.7	Dana Corp. $1	24⅛xd	$1.60	4.1	29.8	Mr Jn Se De	2306
264.4	Data General	958p	–	–	–	–	–
6,572.6	Dun & Bradstreet $1	35⅛	$2.00	3.6	13.2	Mr Jn Sp Dc	–
1,742.1	Eaton Corpn. 50c	40⅜	h$2.00	3.1	2.8	F My Au N	2410
627.3	Echlin Inc	10⅞	70c	4.2	30.6	JaAprJulOct	–
2,711.6	FPL Group 1c	20⅞xd	$2.28	7.1	23.11	MrJnSepDec	–

Continued on next page

[illegible]

Gartmore Money Management Ltd—Contd.

Money Market Bank Accounts

[illegible]

Money Market Trust Funds

[illegible]

UNIT TRUST NOTES

[illegible]

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS – Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
[illegible]	Ford Motor $1	32xd	$3.00	5.9	28.7	Mar Jun S O	2615
[illegible]	Gen Elect. 63c	35¼	$1.64	3.0	7.6	Ja Ap Je Dc	2675
—	General Host Corp $1	515p	30c	3.7	13.12	—	—
3,304.1	Gillette $1	28½	96c	2.1	27.1	Mar Jun S O	2695
267.2	Gt American Bank 8x $1	815p	20c	1.6	28.10	Fb My Aug Nv	—
847.5	Greyhound $1½	21¾	$1.32	3.8	30.5	Ja Ap Jy Oc	2778
713.0	Hasbro Inc 50c	13½	16c	0.7	1.8	Ja No Au My	—
2,317.4	Honeywell $1½	52⅞xd	$2.10	2.5	22.8	Mar Jun S O	2919
2,551.0	Houston Inds.	21½	$2.96	8.8	10.11	Mr Jn Se De	—
[illegible]	IBM Corpn $1¼	73½xd	$4.84	4.2	5.5	Mar Jun S O	2986
1.17	Image Storage/R.Sys. Je	55p	—	—			2961
1,556.6	Ingersoll-Rand $2	29½xd	[illegible]	2.6	26.5	Mar Jun S D	2979
2,009.3	Lockheed Crpn $1	30⅝xd	[illegible]	3.7	15.2	Mar Jun S O	—
325.9	Lone Star Inds $1	19¼xd	[illegible]	6.1	30.8	May Se N Mar	3216
791.1	Louisiana Land 15c	25½xd	[illegible]	2.5	29.8	Mar Jun S O	3222
757.9	Lowe's 50c	19¼	48c	1.6	11.7	Jan Ap Jly Oc	—
1,335.5	Manuf Hanover $1	27½	[illegible]	7.5	26.6	Jan Ap Jly Oc	3279
2,112.7	Merrill Lynch $1	28	[illegible]	3.2	31.10	Feb My Au N	3351
597.5	Molex Inc	2355p	[illegible]	—	—	—	3397
4,603.3	Morgan (JP) $2½	25½xd	[illegible]	4.0	21.12	Jan Ap Jly D	3418
[illegible]	Morris (Phillip)	99¼	[illegible]	2.9	—	—	5161
10,956.6	NYNEX $1	51½	[illegible]	5.4	27.6	F May Au N	4740
4.06	N'wide Legal Serv.	30p	—	—	—	—	5121
400.1	PHH Corp	23⅞	[illegible]	3.0	4.4	Ja Ap Jy Oct	—
—	Pacific Agr	212p	—	—	—	—	—
1,808.9	Pacificorp $3¼	26xd	[illegible]	6.4	18.7	Feb My Ag Nv	—
[illegible]	Pacific Telesis 10c	28¼	[illegible]	4.1	12.85	Fe My Au No	—
804.8	Pall Corp 25c	21½	[illegible]	1.4	24.1	Fe My Au No	—
2,129.2	Pennzoil 83 1/3c	51⅞xd	[illegible]	3.7	29.8	Mar Jun S D	3630
3,130.8	Quaker Oats $5	39⅞	[illegible]	1.9	20.6	Jly Oc Jan Apr	3738

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES – Contd

ELECTRICALS

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING – Contd

PROPERTY

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Contd

TOBACCOS

TRANSPORT

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

MINES—Contd

Miscellaneous

THIRD MARKET

10.5	Seacon Hldgs. ...... ψ	151	†2.5	2.2	18.9	Oct May	3968
7.00	Sleepy Kids 5p ...... ψ	35	–	–	–	–	5068
4.14	Stals Hldgs. 5p .... ψ	9	–	–	–	–	4625
2.14	Sunnyard Studios 1p ψ	1½	–	–	–	–	4666
0.68	Systems Connections 2½p ψ	5½	–	–	–	–	5152
11.3	Tavern Leis. 20p .... ψ	44	–	–	–	–	4867
11.5	Tomorrows Leisure 20p ψ	103	–	–	–	–	4248
17.5	Tullow Oil 10p ..... ψ	17½	–	–	24.2	–	[illegible]
3.22	UPL Group 10p ..... ψ	08	2.75	4.6	22.5	Dec. July	[illegible]
7.44	Ulit Group .... ψ	144	3.0	4.6	3.7	Jan Aug	[illegible]
8.36	Video Magic Leis. 1p ψ	95	W2.0	2.8	–	Jan July	[illegible]
8.00	Vista Ents 5p .... ψ	0¼	–	–	–	–	[illegible]
17.1	Vizcaya Hldgs 5p .. ψ	32	–	–	–	–	[illegible]
65.2	Whitegate Leisure 20p ψ	42½	–	–	–	–	[illegible]
2.08	Do. Wrrnts. .... ψ	31	–	–	–	–	[illegible]
35.8	Wilton Group 1p ... ψ	8	–	–	13.7	–	[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ‡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ‡ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- † Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ‡ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. 6 Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. ov Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

Stocks previously listed under Shipping are now included in the Transport sector, as are others heretofore dispersed under several other headings.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... ψ	96	......
Craig & Rose £1.. ψ	830	......
Finlay Pkg 5p.... ψ	88	+2
Holt (Jos) 25p.... ψ	1348	......

IRISH

Cap. 8½% Ln. 1991 ..	£98	......
9pc Cap Ln. 1996 ..	£99	–¾
Fin. 13% 97/02 ..	£119	......
Arnotts	422	......
Carroll (P.J.) ...... ψ	150	–2
Hall (R. & H.)	188	+6½
Heiton Hldgs. ...... ψ	92	......
Irish Ropes	212	......
United Drug	142	......

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	38
Amstrad	11
BAT	00
BOC Grp	42
BSR	6½
BTR	32
Barclays	42
Blue Circle	24
Boots	25
Bowaters	44
Brit Aerospace	52
British Steel	7½
Brit. Telecom	21
Burton Ord	18
Cadburys	46
Charter Cons	48
Comm Union	32
Courtaulds	30
FKI	14
FNFC	22
Gen Accident	85
GEC	20
Glaxo	110
Grand Met	48
GUS 'A'	90
Guardian	18
GKN	34
Hanson	16
Hawker Sidd	60
ICI	100
Jaguar	28
Ladbroke	28
Legal & Gen	26
Lex Service	33
Lloyds Bank	29
Lucas Inds	58
Marks & Spencer	15
Midland Bk	30
Morgan Grenfell	24
Nat West Bk	25
P & O Dfd	55
Plessey	22
Polly Peck	26
Racal Elect	20
RHM	42
Rank Org Ord	80
Reed Intl	34
STC	32
Sears	10
Smithkline Bchm. A	50
TI	38
TSB	10
Tesco	14
Thorn EMI	58
Trust Houses	24
T&N	10
Unilever	46
Vickers	18
Wellcome	42

Property	
Brit Land	32
Land Securities	52
MEPC	58
Randsworth	20

Oils	
Brit Petroleum	23
Burmah Oil	50
Calor	35
Charterhall	2½
Premier	9
Shell	32
Ultramar	26

Mines	
Cons Gold	158
Lonrho	30
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Battle begins for screen trade supremacy

CURRENCY TRADING volume is around $180bn per day in the US alone, according to a recent Federal Reserve report, or over double the figure of three years ago. This growing market looks set to be the next battle-ground fought over by Reuters and Telerate, the two market leaders in screen-based information systems.

Global electronic trading is no longer a view of the future, it is with us now and seems set to expand at a rapid rate, making redundant the mass of paper work required to back up traditional telephone-based business.

Reuters began the process, and for some years has enjoyed a monopoly, but its position is now under threat from a joint venture between Telerate and the US telecommunications company, AT&T.

Reuters, in response, has been working to update its system, relaunching it as Dealing 2000. Quotron, part of Citicorp, plans to launch an electronic dealing service next year, but at present Telerate's The Trading Service (TTS) appears to be the state of the art.

Reuters continues to dominate in the number of users, having over 3,000, but Telerate has signed up 280 banks since TTS started three months ago, and 210 already have the system installed, operating in 24 financial centres. Bank of America has just signed an agreement to install 21 TTS systems in ten dealings rooms throughout Europe. Mr Peter Harrison, of Telerate, believes that "TTS will be a significant way towards Reuters present number of users by the end of 1990."

Reuters existing system operates as a screen and telex based conversation between two people, with the first saying "I quote sterling at 1.5750-60" and the second replying "I buy 10 million".

The new Dealing 2000 is on test at present, but still only in its first phase. Part of this involves pre-programming the most commonly used conversations. The second phase will be much more advanced, using a computer that can match trades.

Telerate TTS has a fixed format touch sensitive screen. This is known as a slate, and can be split to allow four separate trades at ona time. It has the appearance of a dealing ticket with the price quote missing, which is then added, for sxample 1.5750-60 on dollar/sterling. The opposite party sees the same information and merely touches the required part of the screen to say whether he is a buyer, seller, wants to negotiate a better price, or is declining to deal.

The trade is processed automatically by the back office, eliminating the need for a paper ticket and thus cntting the risk of error. At the same time the system updates the bank's position and keeps the chief dealer informed.

Mr Philip Renshaw, chief foreign exchange dealer in London of Netherlands based ABN Bank, has experience of both systems, but points out this only involves the first phase of the Reuter system. He says: "Telerate TTS has the advantage of being a no-nonsense trading service; it is not just an automated telex, but is a pure dealing service, giving speed and accuracy." Phase two of Reuters plans could make a difference, but in the meantime it seems inevitable that Telerate will make strong advances.

In the end success may depend on just how automated the market is forced to become. One group under threat are the money brokers, but much more from Reuters than Telerate. No broksr has taken TTS yet, although davelopment of forward and deposit market facilities may encourage them. Reuters system in phase two, making computerised matched deals, is hardly an attractive proposition for the brokers.

£ IN NEW YORK

STERLING INDEX

CURRENCY RATES

CURRENCY MOVEMENTS

OTHER CURRENCIES

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

MONEY MARKETS

Fears of higher mortgage rates

A SLIGHT easing of fixed period rates had little significance for the London money market last week. Sentiment appeared to improve slightly, but the prospect of any change in bank base rates still seems very far away.

Tight credit conditions towards the end of the week kept overnight money around 14 per cent and helped the Bank of England to underpin the existing rate structure.

UK clearing bank base lending rate 14 per cent from May 24

UK economic news tended to disappoint, inclnding a sharp rise in August M0 money supply growth and M4 bank and building society lending. There is hope that tomorrow's figure on the August current account will be more encouraging, with the deficit shrinking to £1.4bn from £2.1bn in July. If there is an improvement, this should help prevent any rise in base rates, particularly since the West German Bundasbank declined to raise its official interest rates last week.

But it may not save UK borrowers from an early rise in mortgage rates. The building societies have resisted a rise in rates since base rates were increased in May, but may not be able to hold out much longer. The latest figures showed net lending commitments rising, but receipts falling in August. At the same time Midland Bank has increased the rate paid on its high interest savings account, and other banks could be forced to follow suit.

According to Mr Gwyn Hacche of James Capel, a reasonable current account figure may mean societies delaying the rise until December, but a bad figure will probably result in mortgage rates being raised on November 1.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

EUROPEAN OPTIONS EXCHANGE

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BASE LENDING RATES

	%		%		%
ABN Bank	14	Clydesdale Bank	14	NatWestminster	14
Adam & Company	14	Comm. Bk N. East	14	Northern Bank Ltd	14
Allied Trust Bank	14	Co-operative Bank	*14	Norwich Gen. Trust	14
Allied Irish Bank	14	Coutts & Co	14	PBVA Trustees Limited	14
● Henry Ansbacher	14	Cyprus Popular Bk	14	Provincial Bank PLC	15
Associates Cap Corp	14	Dunbar Bank PLC	14	R. Raphael & Sons	14
Authority Bank	14	Duncan Lawrie	14	Roxburghe Guarantee	14½
● B & C Merchant Bank	14	Equatorial Bank plc	14	Royal Bk of Scotland	14
Bank of Baroda	14	Exeter Trust Ltd	14½	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	Financial & Gen. Bank	14	● Smith & Williamson Secs	14
Bank Hapoalim	14	First National Bank Plc	15	Standard Chartered	14
Bank Credit & Comm	14	● Robert Fleming & Co	14	TSB	14
Bank of Cyprus	14	Robert Fraser & Ptnrs	14½	United Bk of Kuwait	14
Bank of India	14	Girobank	14	United Mizrahi Bank	14
Bank of Scotland	14	● Guinness Mahon	14	Unity Trust Bank Plc	14
Banque Belge Ltd	14	HFC Bank plc	14	Western Trust	14
Barclays Bank	14	● Hambros Bank	14	Westpac Bank Corp	14
Benchmark Bank PLC	14	Hampshire Trust Plc	14½	Whiteaway Laidlaw	14
Brit Bk of Mid East	14	Heritable & Gen Inv Bank	14	Yorkshire Bank	14
● Brown Shipley	14	● Hill Samuel	§14		
Business Mtge Bank	14½	C. Hoare & Co	§14		
CL Bank Nederland	14	Hongkong & Shangh	14		
Citibank NA	14	● Leopold Joseph & Sons	14		
City Merchants Bank	14	Lloyds Bank	14		
		Meghraj Bank Ltd	14		
		Midland Bank	14		
		Mount Banking	14		
		Nat Bk of Kuwait	14		

● Members of British Merchant Banking & Securities Houses Association. * Deposit now 5.9% Savewise 8.5%, Top Tier-£10,000+ instant access 12.8% § Mortgage base rate. § Demand deposit 9%. Mortgage 14.25% - 15%

JOTTER PAD

CROSSWORD

No.7,046 Set by DOGBERRY

ACROSS

1 Jump on Spanish composer going round the bend (6)
4 Mocker acquires sex appeal when given a drink (8)
9 Irish member's colonies (6)
10 Point to a 7, twisting and skirting (8)
11 At three-all, lose heart to charm (6)
12 Ruin game with a bloomer (8)
13 Irish police turn out mongrel (6)
14 Missile on coast (6)
17 Pen to force Scotsman from hell (7)
21 Alternative menu: it appears at a dance (6)
25 Float old currency (6)
26 Castle Solace — not on paper (8)
27 Cruelty is found in inspiration (6)
28 For instance Pope's girl? (8)
29 Adept medic in flower (6)
30 College possibly remains unknown (8)
31 Love a learner not knowing the rules (6)

DOWN

1 "Late schoolboys and sour —" (Donne) (8)
2 Boxer's superior alice? (8)
3 The indifferent couldn't be clumsy (8)
5 Beam penetrating by way of plea (9)
6 Heartless escapee found at airport (6)
7 Alarm means "Get up — bed's evil!" (6)
8 Stout upstanding friend abroad, a daughter of Mohammed (6)
12 Grotesquerie and fiendish ghouling when dehospitalised (7)
15 Letter from Greek terrorists (9)
16 Furious, being brought up by parent (8)
18 Not believing in him, is left confused (8)
19 Coppers award redhead a vegetable (8)
20 It's insubstantial but it's here and all around (6)
22 Calculator needed for short French exam in Australia (6)
23 ? In spirit fashion? (6)
24 Dust in headquarters (6)
25 Standard abolitionist (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday October 7.

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY (continued) | NETHERLANDS | NORWAY | SPAIN | SWEDEN | SWITZERLAND | SOUTH AFRICA | AUSTRALIA (continued) | HONG KONG | SINGAPORE | JAPAN | AUSTRALIA

(Columns of share prices: 1989 High, Low, September 22, Price — [illegible])

CANADA

TORONTO
Closing prices September 22

Quotations in cents unless marked $.

(Sales, Stock, High, Low, Close, Chng — [illegible])

MONTREAL
Closing prices September 22

Sales	Stock	High	Low	Close	Chng
9200	Cambior	$13½	13¼	13¼	+ ⅛
6866	Cascades	$06½	06¾	06¼	+ ⅛
1962	DomTxtA	$16⅛	16⅝	16⅛	– ⅛
2700	Donohue	$13⅛	15	13⅛	+ ⅛
22085	Memotec	$16⅝	10¼	16¼	– ⅛
67793	NatBk Cda	$13⅞	13⅛	13⅞	
7650	Noverco	$12	11¾	12	+ ⅛
28200	Power Corp	$18⅛	15½	15½	
73717	Provigo	$09¾	09½	09¾	+ ⅛
1264	Quebecor	$15⅛	15¼	15¼	
11982	Videotron	$17¾	16¼	17¾	+1

Total Sales 6,071,798 shares.

INDICES

NEW YORK

DOW JONES	Sep 22	Sep 21	Sep 20	Sep 18	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2681.61	2680.28	2683.89	2687.31	2752.09 (1/9)	2144.64 (3/1)	2752.09 (1/9/89)	41.22 (2/7/32)
Home Bonds	92.88	92.89	92.97	92.89	94.15 (2/8)	87.35 (23/3)		
Transport	1448.26	1465.86	1457.33	1450.21	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	216.80	216.30	217.43	216.55	221.64 (8/8)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2696.62 (2707.83) Low 2667.55 (2665.65)

STANDARD AND POOR'S	Sep 22	Sep 21	Sep 20	Sep 18	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	347.05	345.70	346.47	346.55	353.73 (1/9)	275.31 (3/1)	353.73 (1/9/89)	4.40 (1/6/32)
Industrials	396.98	394.64	395.60	395.98	405.27 (1/9)	318.66 (3/1)	405.27 (1/9/89)	3.62 (21/6/32)
Financial	33.38	33.07	33.03	32.95	33.59 (7/8)	24.30 (3/1)	33.59 (7/8/89)	8.64 (1/10/74)
NYSE Composite	192.73	192.16	192.45	192.46	196.37 (1/9)	154.98 (3/1)	196.37 (1/9/89)	4.46 (25/4/42)
Amex Mkt. Value	381.38	380.04	379.14	378.83	384.54 (12/9)	305.24 (3/1)	384.54 (12/9/89)	29.31 (9/12/72)
NASDAQ Composite	468.07	467.00	466.72	467.05	471.86 (12/9)	378.56 (3/1)	471.86 (12/9/89)	54.87 (31/10/72)

	Sep 16	Sep 8	Aug 25	year ago (approx.)
Dow Industrial Div. Yield	3.76	3.70	3.39	3.68

	Sep 20	Sep 13	Sep 6	year ago (approx.)
S & P Industrial div. yield	2.87	2.89	2.86	3.19
S & P Indl. P/E ratio	14.49	14.46	14.61	13.03

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
JP Morgan	1,788,500	41⅛	+ 2
Phillips Pet	1,660,800	27⅛	----
Telerate	1,600,200	20¼	– ⅛
Austria Fd	1,477,600	12⅞	----
Pan Am Corp	1,444,800	4⅛	+ ⅛
Am T & T	1,311,000	43⅛	+ ⅛
Chicorp	1,272,000	32⅞	+ 1⅛
UAL	1,217,400	281⅛	– 5⅛
Amer Corp	1,210,200	79⅛	– 2⅛
BankAmerica	1,191,800	34	+ ½

TRADING ACTIVITY

† Volume (Millions)	Sep 21	Sep 21	Sep 20
New York	131.186	148.534	136.640
Amex	10.206	12.401	12.156
NASDAQ	148.885	138.620	137.051
Issues Traded	1940	1,948	1,949
Rises	727	664	708
Falls	637	755	703
Unchanged	576	529	538
New Highs	51	45	46
New Lows	30	26	28

CANADA

TORONTO	Sep 22	Sep 21	Sep 20	Sep 19	1989 HIGH	1989 LOW
Metals & Minerals	3646.6	3644.7	3667.4	3660.95	3919.2 (1/9)	3207.5 (3/1)
Composite	3909.5	3901.3	3906.5	3900.95	4019.7 (10/8)	3350.5 (6/1)
MONTREAL Portfolio	1986.92	1986.25	1997.05	1998.24	2053.80 (1/9)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Sep. 22	Sep. 21	Sep. 20	Sep. 18	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1706.8	1714.8	1734.0	1745.9	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	830.2	838.8	843.2	849.1	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	452.53	443.96	441.50	440.98	452.53 (22/9)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6747.19	6702.10	6706.17	6718.68	6747.19 (22/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	332.21	332.77	332.45	332.95	356.65 (12/7)	275.49 (27/2)
FINLAND						
Unitas General (1975)	721.3	722.7	731.3	733.1	815.8 (18/4)	721.3 (22/9)
FRANCE						
CAC General (31/12/82)	550.4	543.7	542.6	541.6	550.4 (22/9)	417.9 (4/1)
Ind. Tendance(30/12/88)	126.1	124.3	124.5	124.4	126.1 (22/9)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	679.37	674.93	674.79	671.56	685.92 (8/9)	535.78 (27/2)
Commerzbank (1/12/53)	2032.8	2019.4	2015.0	2009.0	2052.1 (8/9)	1595.7 (27/2)
DAX (30/12/87)	1628.80	1611.42	1612.87	1614.16	1657.61 (8/9)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2706.36	2665.75	2631.20	2628.30	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1768.47	1754.74	1751.65	1758.06	1848.93 (10/8)	1360.64 (10/1)
ITALY						
Banca Com. Ital. (1972)	715.53	709.90	712.14	716.54	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	34771.79	34745.02	34470.58	34471.07	35140.83 (21/8)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2629.40	2633.52	2615.58	2619.07	2659.08 (21/8)	2366.91 (6/1)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	272.5	272.7	272.0	272.3	272.7 (21/9)	208.3 (5/1)
CBS All Shr (End 1983)	209.5	209.7	209.2	209.4	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	686.34	685.92	688.8	685.95	692.28 (18/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	*1128.34*	*1135.86*	*1129.10*	*1127.46*	*1217.44 (10/8)*	*804.62 (6/2)*
SINGAPORE						
Straits Times Ind (30/12/66)	1392.80	1401.35	1394.97	1399.27	1420.52 (13/9)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1643.0§	1609.0	1600.0	1589.0	1685.0 (3/8)	1291.0 (15/2)
JSE Industrial (28/9/78)	2736.0§	2736.0	2730.0	2729.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA						
Korea Comp Ex. (4/1/80)	932.36	938.13	943.87	952.02	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	326.27	325.20	324.68	324.90	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	*4291.3*	*4299.7*	*4283.9*	*4311.0*	*4660.3 (16/8)*	*3333.9 (3/1)*
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	816.3	814.9	818.8	818.7	829.1 (6/9)	613.1 (3/1)
TAIWAN						
Weighted Price (30/6/66)	10672.22	10567.06	10635.91	10679.83	10679.83 (19/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	707.26	708.24	702.92	691.32	724.93 (13/9)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	532.2	531.5	530.5	551.2 (3/8)	487.6 (13/6)

§ Subject to official recalculation.

Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday September 22 1989

(Stocks Traded, Closing Prices, Change on day — [illegible])

4pm prices September 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
30¼	21⅛	AAR	.44	1.2	22	694	35⅛	34⅞	30⅛	+ ⅛
9⅞	8⅛	ACM s	1.01	11.		399	9⅛	9	9⅛	
11⅞	10⅞	ACMIn	1.26a	11.		532	11½	11¼	11⅛	
10⅞	6	ACM M	s1.01	11.		934	9	8⅞	9	+ ⅛
11½	10	ACM Sc	1.26	11.		1066	11⅜	11¼	11¼	– ⅛
9⅝	8⅞	ACMSp	1.01	11.		827	9⅛	9	9	– ⅛
16	11½	AL Lab	.12	.7	17	58	16⅞	16⅝	16⅞	+ ⅛
4⅞	3⅛	AMCA	.12e	3.4	23	177	3½	3⅜	3½	
6⅞	4½	AM Ind			11	648	5⅝	5¼	5⅞	
23½	20⅝	AM In pf	2	9.1		4	23	22	22	+ ⅛
80	48⅛	AMR			9	12087	82⅞	79	72	–2⅞
37	25	ANR pf	2.67	10.		5	25½	25⅛	25½	
7⅜	3⅝	ARX				194	4⅛	4	4⅛	+ ⅛
44⅝	35½	ASA	3a	8.0		2079	u45⅝	44⅞	45⅝	+1⅛
22⅞	15⅛	AVX	.24	1.1	16	1390	21⅝	20⅞	21⅜	+ ⅞
30	44⅛	AbtLab	1.40	2.2	17	4067	63	61⅝	62½	+ ½
18⅛	13¼	AbitibI g	1			19	14⅝	14½	14⅝	+ ⅛
13	7½	AcmeC	.40	3.6		105	16⅞	10⅞	16⅛	+ ⅛
9⅛	5⅞	AcmeE	.32	3.5	11	31	9⅛	9⅛	9⅛	– ⅛
34⅞	25⅛	Acusn			24	90	32⅞	32⅞	33	
17	14⅛	AdaEx	1.62e	11.		161	16⅝	16⅛	16⅛	– ⅛
12⅛	6½	Adobe				34	11½	11½	11½	
19⅝	16½	AdoC pf	1.84	9.7		11	18⅞	10⅞	18⅞	– ¼
21⅛	19⅞	Adob pf	2.40	11.		5	21⅛	21½	21⅛	
11⅜	7⅛	AMD				875	8⅝	8½	8⅝	
16⅞	6⅛	Advest	.12	1.3	19	14	9	8	9	
60⅝	46	AetnLf	2.76	4.9	9	3958	58⅞	55	56⅛	– ⅛
14	12⅞	AflPb				238	15	12⅞	12⅞	– ⅛
23⅜	15⅛	Ahmans	.88	3.9	11	1547	22⅞	22⅛	22½	
[illegible]										

Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

–X–Y–Z–

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge
14	4½	Wyse				2085	7⅛	6⅞	7¼	+ ⅛
39	53⅝	Xerox	3	4.5	10	1267	66⅜	65⅝	66⅜	+ ⅞
44⅛	29⅝	XTRA	.72	2.4	2	104	29¾	29⅜	29½	– ⅛
4⅛	2	Zapata				222	2¾	2½	2⅝	
10½	10⅛	Zemex	.40	4.0		10	10⅛	d10	10	– ⅛
22⅞	14	ZenithE				995	14⅝	14⅜	14⅜	– ⅛
16⅞	8⅛	Zeninc	1.26	15.		422	8¾	8½	8⅜	
5⅛	1⅛	viZenLb				450	1⅝	1½	1⅝	
21⅞	15	ZenNt	.84	4.4	9	12	19⅛	18	18⅞	
18½	11⅛	Zero s	.40	3.2	17	97	17⅞	17⅛	17⅞	– ⅛
44⅛	23¼	Zurnin	.60	1.7	18	111	38⅜	38½	38¾	+ ⅛
12	10	Zweig	1.09e	9.3		627	11⅞	11⅝	11¾	– ⅛
10⅛	8¼	ZweigTl	.95	11.		2675	9⅛	9	9⅛	– ⅛

Sales figures are unofficial.Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months.g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months,plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganized under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales infull. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices September 22

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Fread B			165 6	6½	6⅜	6⅜	+ ⅛
Fread A	.10		31	7⅛	7⅛	7⅛	
ProCm s			322	8½	8⅛	8⅜	+ ⅛

OVER-THE-COUNTER

Nasdaq national market, 4pm prices September 22

Stock	Div.	Sales 100s	High	Low	Last	Chng
WillyJ A	1.16	108	63	u69 27½	35	+ ⅛
Willamt	1.45	9	226	52 23¾	62¼	– ⅛
WilmTr	1.24	13	76	43 42	42⅞	+ ⅛
WiserO	.40	45	22	16⅞ 16⅛	16⅜	+ ⅛
Wolohn	.28	11	68	21 20⅛	21	+ ⅛
WlvEx h			53	8⅛ 8½	8⅜	+ ⅛
Worthg	.56	17	447	28½ 23¼	22½	+ ⅝
Wyman	.60	178	128	18 17⅛	17¼	– ⅛
–X–Y–Z–						
XL Dta s		29	1232	u27½ 33⅛	26	– 1⅛
XOMA			7671	20¾ 10¼	20	– ⅛
Xicor		6	3916	5⅛ 5½	5½	
YelowF	.76	11	450	22⅞	29⅝	
ZionUt	1.44		12	30 29½	29½	– ⅛
Zycad			414	5⅛ 5⅝	2¾	

The Business Column

Corporate and human costs of delayering

At last the hard-driving Jack Welch has admitted in public what his critics have said all along: that it is all too easy for gung-ho top managers to delayer a company, and to double each executive's "span of control," without paying enough attention to the effect on people further down the organisation – and therefore on the company's own long-term welfare.

Since Welch became chairman of US General Electric in 1981, the previously gentlemanly company has become an international model of revitalisation, speedy decision-making and – in theory – dismantled bureaucracy. Successful senior managers shrug off their immense workload and say Welch has liberated them to behave like entrepreneurs. They argue that the extra pressure has forced them to set strict priorities on how they spend their time, and to abandon many past procedures.

Some of their subordinates concur with this view of Welch's brave new world. But private conversations with others, and the occasional published comment, have suggested over the past few years that for many perfectly competent managers down the line the pressure has become too great.

In a Business Column last October, it was argued that GE and its corporate emulators were running two main risks: of inadequate internal communication between senior managers and the 15 or more people who now report to each of them, compared with the traditional norm of five to eight; and of overwork, stress, demotivation and inefficiency on the part of managers down the line who have to do extra work dumped on them by their hard-pressed superiors.

Bitter frustration

In a revealing interview in the latest edition of the Harvard Business Review*, which reports much bitter internal frustration and ill-feeling among the troops at GE, Welch sticks to his guns on the ideal number of "direct reports." Layers mask mediocrity, he insists: a manager with 10 or 15 reports has no choice but to let people below flex their muscles. "An over-burdened, overstretched executive is the best executive, because he or she doesn't have the time to meddle, to deal in trivia, to bother people."

But Welch does concede that the removal of clutter and bureaucracy at and near the top of GE may simply have pushed the problem lower down, so that people have little time to be creative and to challenge the status quo – including their bosses. As Welch himself says, the only solution for some critics with difficult superiors has been to leave the company.

GE's solution has been to do something it should have done at the start, before the resentment began to build up. Since late last year it has been introducing a consultative programme across the group which has the triple aim of identifying sources of bureaucracy and frustration; of eliminating unnecessary and unproductive work; and of overhauling managers' evaluation and payment systems.

Welchian objectives

Called Work-out – a typically muscle-flexing Welchian term – the programme has what Welch calls both practical and intellectual objectives: to "get rid of thousands of bad habits," and to put all GE's business leaders in front of about 100 of their people, up to 10 times a year, for a no-holds-barred debate.

The ultimate goal, says Welch, is to get to a point where people challenge their bosses candidly every day, along lines such as these: "Trust me to do my job, and don't make me waste all my time trying to deal with you on control issues." Subordinates should also tell their bosses to be more creative.

That really would be redefining the relationship between boss and subordinate. Even within today's outspoken GE, that is a herculean task, and there is still a very long way to go.

Speed, Simplicity, Self-Confidence. HBR Sept-Oct 1989, reprint no 89513, from (US tel) 617-495-6192, or (Dutch telex) 47552.

Christopher Lorenz

MONDAY INTERVIEW

Keeping all the bridges open

Hugo Dixon talks to Judge Harold Greene

"PEOPLE SEEM to think, in the telecommunications case, that I do what happens to pop into my head. I go strictly by the words of the decree and the purpose of the decree. I can't say: 'well, today we'll deregulate this and we'll regulate that.'"

Judge Harold Greene, the man who presided over the break-up of America's Bell telephone system and is now responsible for enforcing the decree, is sensitive to accusations that he is an empire builder.

He is particularly sensitive at the moment, because critics in Congress are trying to strip him of his power over telecommunications policy. And the Baby Bells are attacking him for hemming in their businesses with restrictions on what they can and cannot do.

Judge Greene's answer is to portray himself as "simply a low-level judge" who got the brief to try the anti-trust case against AT&T by accident. "It was simply a routine case that was routinely assigned to me. I didn't seek it out."

He explains that he is not overstepping his constitutional limits. "Congress passed the anti-trust laws. They have never changed the anti-trust laws. That's one branch of government.

"The second branch of government, the executive branch – acting through the Attorney General – not only brought this law suit . . . but, in a sense, dictated the outcome by agreeing to the decree.

"So it isn't like Judge Greene out of nowhere created this empire for himself. It's the other two branches that, in effect, forced me to do that.

"It would have been impossible for me or any other judge, when the decree was presented in 1982, to say: 'Well it's true Congress passed the anti-trust laws and it's true the Attorney General and the Bell System agreed to this, but I don't feel like it. I'm not going either to sign it or enforce it.' I would have been impeached."

Moreover, he argues that the case gets "less and less interesting. It becomes more technical as time goes on. It isn't something I would choose if I had a choice of everything else."

He points out that enforcing the AT&T decree only takes about a quarter of his time and he has plenty of other interesting cases on his list. He has just finished trying a big drug smuggling case and he has recently been assigned the case of Admiral John Poindexter, the White House National Security Adviser involved in the Iran-Contra scandal.

From all this talk of other interests, one might think that the impish Jewish refugee who fled Hitler's Germany and helped Bobby Kennedy draft the Civil Rights Acts in the 1960s would be only too delighted to surrender his telecommunications responsibilities to the Federal Communications Commission, as suggested by the critics. That would bring telecommunications policy under a single roof and also make it subject to political control.

But Judge Greene will have no truck with these ideas. "The anti-trust suit was brought because the FCC proved unable to regulate AT&T the way it should have been and there is no reason to believe that the FCC, given its resources and structure, could do any better today."

The FCC's bureaucracy may be small, but why should Judge Greene's even tinier operation do better?

"I don't need that many assistants because the remedy has already been fixed. It isn't a question of looking for new remedies. The solution is there. AT&T was divorced from its 26 local companies which became seven regional companies, and the seven regional companies are forbidden to go into three fields [long-distance traffic, information services and equipment manufacture]. All I have to do is make certain they don't go into three fields."

This makes it sound as though Judge Greene takes a rather passive attitude to the job. But, in fact, he makes clear that he is deeply involved in the content of what he is enforcing.

"I could easily have taken the position from day one: 'Don't blame me if things don't work right; if you have complaints about your telephone service, don't come to me. All I did was put my signature to this decree which was basically worked out by other people.' And I could have said: 'well that really isn't my problem. Go to them!'

"I never did that because I felt that it is a good decree and beneficial to the American economy and American consumer . . . As far as I am concerned, the decree is like the Bible – in our limited sphere."

But every Bible needs its interpreter and, in the case of the AT&T decree, the interpreter is Judge Greene.

PERSONAL FILE

1923	Born. Educated George Washington University
1953-57	Assistant US Attorney, District of Columbia, Washington
1957-65	Justice Department
1965-66	Judge, DC Court General Sessions
1966-71	Chief Judge, DC Court General Sessions
1971-78	Chief Judge, DC Superior Court
1978	Judge, US District Court for DC
1982	The AT&T break-up decree

'So it isn't like Judge Greene out of nowhere created this empire for himself'

The decree says that the restrictions on the Baby Bells can be removed when there is no longer any serious danger that they will be able to engage in anti-competitive activities.

It is Judge Greene's job to decide whether that condition has been reached and his view is that "nothing has changed except, instead of the Bell System having those local monopolies, the regional companies have those local monopolies.

"They have the same power and the same incentives the Bell system had . . . Since the others have to go through their lines and their switches, they have life and death power over their [competitors'] operations."

He also rejects criticism that the Baby Bells have suffered because of his refusal to remove the restrictions.

"The regional companies can go into 1,000 markets – everything from running grocery stores to building sky-scrapers. They can go into 997 of them without any impediment. They only want to go into those three markets where obviously their local monopoly gives them an advantage over everybody else. It would be nice if they would concentrate on the 997 markets where they don't have such an advantage.

"Everybody assumed they would be poor relations. AT&T had taken advantage of these local companies and they were in terrible shape. As it is, they are doing extremely well by any measure that you want – earnings, profits, expansion. So the idea that without their going into those three sensitive areas they cannot exist is ludicrous."

To make his point, Judge Greene draws an analogy with an old anti-trust case concerning a railroad bridge in the Midwest. "There were a number of railroads going into that city and one of the railroads had the bridge – the only bridge – that they all had to pass over."

The Supreme Court forced the dominant railroad company to open its bridge to its competitors. "The local switches and wires are like that railroad bridge," explains Judge Greene.

Surely the moral of this analogy is that the Baby Bells should give their rivals access to their local network, not that the Baby Bells should be kept out of long-distance traffic and the other restricted businesses? That would chime in with the regulatory approach adopted in the UK, where British Telecom has to open up its network to rivals but is also allowed to compete with them.

But having dreamed up the analogy, Judge Greene is not happy with the conclusion.

"You can easily tell whether somebody can use a bridge . . . Either they run over it or they don't run over it. You can't so easily tell whether somebody allows access to local circuits. The idea of simply ordering them to permit others to use the bridge, so to speak, was tried by the FCC for years and years and didn't work."

What about another way round the problem – letting others build bridges?

"The problem with that is it isn't very practical from a technical point of view. You can't reach individual customers in a big city like London with more exotic means of communications like satellite. You need wires. To have 3,4,5,6 sets of wires from 3,4,5,6 sets of long-distance companies all going into the same building is very costly."

But maybe there are new technologies on the way that would allow people to build cheap "bridges." Britain, for example, has high hopes that a new form of mass-market mobilephones, called personal communications, could provide local competition to BT.

"If that's coming, the restrictions will be gone like this," says Judge Greene, snapping his fingers.

Human disasters and the bereaved

JUSTINIAN

The recent spate of human disasters – from Zeebrugge to Hillsborough via King's Cross and Clapham Junction – has dramatically pinpointed the persistent limitations of the English legal system, geared – as it has been for 40 years of the legal aid scheme – to the financing of individual claims for personal injuries, but unadaptable to claims by large numbers of victims of a single accident.

Together with other aspects of compensation to victims and their relatives, the legal profession, under the stimulus of the Citizens' Compensation Campaign, is coming to grips with the outcrops of disaster litigation.

After the Opren case before the courts in 1987, parliament introduced into the Legal Aid Bill a provision to deal with "multi-party cases" where a large number of plaintiffs would be pursuing a single manufacturer or carrier for damages.

Where this occurs, it is now envisaged in Section 15 (5), Legal Aid Act 1988 that all the plaintiffs should be represented by particular solicitors who will have contracted with the Legal Aid Board. Where a common interest is identified, regulations will be made prescribing the category of persons sharing that interest. The board will contract with solicitors, who will provide the legal representation for those persons.

During the passage of the Bill through parliament, the Lord Chancellor acknowledged that the provision restricts the freedom of choice of lawyer to represent the individual, but that was the price to be paid for greater co-ordination of multi-party actions in order to strengthen common representation.

But it is only those who qualify for legal aid who will fall within the prescribed class and will be directed to the contracted solicitors. To maintain the cohesion of the plaintiffs' multi-party action, those who wish to join in who are ineligible for legal aid, because their resources, both capital and income, are above the legal aid limits, must somehow be made eligible.

If there were many unassisted litigants suing separately under their own steam (with their own solicitors and their personal finance) it would be all too easy for defendants – a big drugs manufacturer or a large-scale transport company – to divide and rule.

The most promising proposal is that in multi-party cases the means test for obtaining a legal aid certificate should be abolished. Those financially well-off would be asked to make a contribution of not more than £1,000 and thereby become eligible to join in the common representation.

Financial compensation to the victims of disasters is a thorny topic. Apart from a feeling that too little is awarded by the courts – although compared with European countries Britain does not fare too badly – there is the problem of what is to be compensated.

Traditionally, the law has provided only a very modest sum of money for the loss of expectation of life. Now, by recent statute, the court may award the fixed sum of £3,500 to the family of a deceased relative to represent their bereavement, although this sum is adjustable from time to time by the Lord Chancellor. No adjustment has been made.

But that sum is payable only to a narrow class of person – namely, the parents of a child under the age of 18 and the spouse or co-habitee of the deceased victim. There is deep resentment among many parents of young men and women over 18 who are killed in action that they cannot claim anything for the loss of their loved ones.

Arising out of the negotiations to settle the claims by the victims who died in the Zeebrugge disaster, the shipping company finally agreed to pay each victim's family £10,000 – one half to represent pre-death pain and suffering and the other half funeral expenses.

The modest sum fixed by statute has prompted the discussion among lawyers about what value society should place on the loss of a life. There are some who think that it might be more sensible to concentrate on getting higher awards for those seriously incapacitated in such disasters. For them, it is the quality of life rather than the incidence of death that should attract monetary compensation.

The quality of life is demonstrably lessened not only by physical injury but also by psychological or psychiatric damage. From the experiences of the American veterans of the Vietnam war and more recently of the British Forces during the Falklands expedition, there has come to be recognised a state of post-traumatic stress disorder as one element in the assessment of psychiatric injury. Earlier this year, an arbitration tribunal made awards to such sufferers as part of the damages to survivors of the Zeebrugge disaster.

One problem which is inviting urgent attention remains unresolved.

Not infrequently nowadays, relatives of victims of such disasters experience deep distress and even mental disorder even though they may be physically remote from the scene of the disaster.

A soldier dies in battle. His next of kin is the first to be notified, in a a manner that seeks to soften the blow. A crew member of the Zeebrugge disaster, on the other hand, rings his wife to say that the vessel is setting sail and he will be home for dinner. While cooking that dinner the seaman's wife sees pictures on her television screen of the vessel sinking and her husband drowning.

There are hints that the courts are beginning to acknowledge that the relatives of deceased victims are entitled to be compensated. The question always is: can the relative show a sufficient causal connection between the wrong-doing and the injury? The immediacy of televised news telescopes the otherwise distanced impact of the disaster.